



## NEWS: EUROPE

## Secret raid on Russian chocolate company

By John Thornhill in Moscow

An international consortium has mounted a secretive takeover bid for one of Russia's biggest confectionery companies, sparking a row over shareholders' rights in the country's murky capital markets.

A consortium of five companies, headed by the powerful Inkombank and including N.M. Rothschild, the British merchant bank, claims to have gained majority control of the Babayev confectionery factory after quietly amassing more than 50 per cent of its shares for \$13m.

It acquired the shares by various routes and is now trying to assert

control of the company, though it has indicated a willingness to work with the current management.

Minority shareholders, which include Babayev's management and workers, have complained about the secretive way the consortium has tried to gain control of the company without paying a takeover premium. Some fear that the new owners may ignore their interests, and that the shares would become difficult to sell.

But Babayev's board has published an open letter asking the consortium to prove it owns as many shares as it claims, and calling on it to treat all shareholders equally by

buying out minority investors at a fair price.

The Moscow-based company has also called an extraordinary shareholders' meeting on November 18 amid allegations about underhand dealings and bribed officials.

They claim that the way the takeover has been mounted would not be allowed in most industrialised countries.

"This bid reveals all the more unseemly sides of Russia's markets," says one Moscow-based financier.

Little verifiable financial information is available about Babayev, but like several other companies in the

buoyant consumer products market, it appears to have made good progress since privatisation - with production in the first eight months of 1995 up 18 per cent on the same period last year. Stated profits have risen by 3.3 times to Rhs83bn (\$18.13m) over the comparable period.

The bid contrasts with the takeover offer by Menatep bank this year for a controlling stake in the Red October chocolate factory, one of Babayev's main rivals. Although the bid lapsed, the approach was praised for its transparency and even-handedness in offering all shareholders \$9.50 a share.

Russia's equity market, formed only two years ago as a by-product of mass privatisation, has been developing at break-neck speed, leaving the Federal Securities Commission, the regulator, struggling to draw up rules quickly enough to entrench concepts of shareholder rights and corporate governance.

Concerns over these issues have deterred many foreign investors from entering the market.

Some of Russia's highest companies are adopting high standards of corporate governance and opening themselves to scrutiny on their own initiative as they seek to raise

money on international capital markets. Mosenergo, the Moscow electricity generator which is among the most transparent enterprises, this week became the first Russian company to succeed in issuing American Depositary Receipts.

The bid for Babayev also illustrates how some leading Russian banks are trying to expand their portfolios of industrial assets through in-house corporate finance departments.

Some bankers draw early parallels with the powerful "universal banks" of Germany and Japan which embrace a wide range of financial and industrial activities.

## Brussels threatens aid cuts over Emu

By Lionel Barber in Brussels

The European Commission yesterday threatened to cut regional aid to countries running excessive budget deficits once the planned monetary union goes ahead in 1999.

Mr Yves-Thibault de Silguy, EU economic affairs commissioner, floated the idea of tightening regional aid rules as part of a new carrot-and-stick policy to countries seeking to join the single currency.

His speech to MEPs in Brussels came in response to German appeals for a "gentleman's agreement" to enforce curbs on budget deficits binding on future governments participating in Emu.

The Commission is also examining proposals to restrict state aid and other EU funds to countries which do not pursue responsible economic policies, according to Brussels officials.

The German campaign marks an effort to fill in the gaps in the Maastricht treaty on Emu. Recognition is growing that the treaty is tilted toward nominal - rather than sustained - economic convergence among Emu aspirants.

Commission officials stressed yesterday that Mr de Silguy was seeking to stimulate debate in response to concerns at last month's meeting of EU finance ministers and central bank governors. The idea was to take measures which would not require treaty changes.

It remains unclear whether weaker economies which fail to meet the criteria for monetary union would also face restrictions on regional aid. Such a move would challenge the 1990s conventional wisdom that regional aid helps weaker economies to "converge" with their stronger counterparts.

Last July, Greece, Portugal and Spain were put on notice that they risked losing access to the cohesion fund, the five-year Ecu15.5bn (\$20bn) programme set up in 1992 to help the four poorest countries (including Ireland).

Though mainly intended to fund infrastructure projects, the aid was also viewed as a pay-back for the poor countries' agreement to support the single market and Emu.

Tom Burns in Madrid adds Mr Pedro Solbes, Spain's economy minister, yesterday issued a veiled challenge to Mr Theo Waigel's view that economic and monetary union can only go ahead on German terms by applying strict economic criteria.

Arguing that political considerations were at least as important, Mr Solbes said, "We are not going to arrive at Emu solely by putting ticks and crosses against who has met the convergence rules."

He said the "perfectly" understood the German finance minister's insistence on strict convergence rules, but distanced himself from any attempt to create a monetary union based solely on the D-Mark's zone of influence. "It would be very difficult to understand a single currency without France," he said.

## Ukraine feels the first chill of fuel crisis

By Matthew Kaminski in Kiev

The Ukrainian government has warned that energy stocks are lower than ever ahead of winter, bringing increased risks of blackouts and a shortage of fuel for domestic heating.

Ordinary Ukrainians are already feeling the chill. Heating for houses in towns, which comes from centrally controlled combined heat and power stations, is normally allowed from October 15. But Ukrainians have had to do without it so far this year and it will stay off until the temperature goes below 5°C for five consecutive days in a government effort to conserve fuel.

Officials are concerned that this winter may be the worst since Ukraine severed its ties three years ago with the Soviet Union - which supplied enough fuel for the country's needs. It has since had to buy supplies on the world market, usually from Russia and Turkmenistan.

Gas, oil and coal supplies are, according to an energy economist, "perilously low compared even to last year."

The second largest ex-Soviet republic is paying the price for buying oil and gas on the world market while keeping domestic tariffs low and running a poor collection rate. The country's four state-owned generation companies lack the capital to purchase additional fuel. Coal is the main domestic energy resource, and production has fallen from 131.9m tonnes in 1993 to 94.4m last year.

At the same time, the government's tight budget precludes giving credits to the generation companies or accepting Russian or Turkmen gas without payment. As part

of its attempt to break out of the spiralling debt cycle of past years, Ukraine has paid for \$2.35bn of the \$2.5bn worth of Russian gas for the current year. Arrears have been rescheduled.

The US last month promised \$100m in oil supplies. A \$350m World Bank loan, if approved, also would pay for fuel.

Ukraine has the tenth largest power generation capacity in the world, designed for a time when it was part of the Soviet industrial giant. It has 56m kilowatts capacity, including 15 nuclear reactors in operation.

The problem is, according to Mr Serif Kaynar, Asen Brown Boveri's Kiev representative: "They have built a system not planned for Ukraine separately." Many plants were inefficient and Ukraine relied too much on gas-generated steam to heat homes.

Mr Evhen Marchuk, Ukraine's prime minister, last week told parliament the country would raise the share of nuclear power from 33 per cent to 40 per cent next year to lower dependence on fossil fuels. Ukraine also hopes to complete the construction of three unfinished reactors. It has promised to force through "unpopular" price increases to make consumers pay the full cost of power, after four years of subsidies. "It's better to pay more for heat and light than not to have them in the first place," Gas meters, approved by parliament in June, are set to be introduced in Ukrainian homes by next year. Fuel shortages have also prompted calls to diversify imports.

Russia provides 15.7m tonnes of the 15.9m tonnes of Ukraine's crude oil needs and the bulk of its gas.

Ukraine net energy imports (exports) (\$m)			
	1993	1994	1995*
Crude oil	1,589.8	1,508.7	2,380.0
Natural gas	3,465.2	3,511.2	4,187.0
Coal	137.3	70.6	427.7
Petroleum products	500.1	736.7	603.0
Electricity	(99.7)	(30.4)	(100.0)
Other	351.0	182.7	191.0
Total	5,941.8	5,990.1	7,698.7

Sources: Ukrainian government and World Bank

\*estimate

## Çiller to form cabinet ahead of poll

By John Barham in Istanbul

Turkey's president Süleyman Demirel yesterday asked caretaker prime minister Tansu Çiller to form a new government. The move came as Mrs Çiller asked parliament to approve December 24 as the date for a general election.

Mrs Çiller had earlier obtained a presidential decree demanding an immediate return to work by about 80,000 key public sector workers.

The workers are among 350,000 involved in strikes over the past four weeks which have undermined Mrs Çiller's position.

The strikers are pursuing a pay claim for a two-stage rise of 35 per cent and 27 per cent this year.

The government's back-to-work order yesterday was accompanied by an offer of a 50 per cent pay rise - but this would only be implemented next year.

Meanwhile, unions claimed that 300,000 civil servants heeded a call for a one-day walk-out yesterday in a separate dispute over the right to strike and collective bargaining.

The action surprised union and political leaders as Mrs Çiller's centre-right True Path party is relying on agreement with the social democratic Republican People's party (CHP), which sympathises with the strikers, to form a provi-



Turkish prime minister Tansu Çiller addressing her True Path party in Ankara yesterday

sional government to run the country until a general election takes place.

Details of the new coalition deal with the CHP were not available last night, but the CHP was said to be pressing for several important ministries, notably the education and interior portfolios, as well as some concessions on human rights and political reform. True Path has 161 seats in

the 450-member parliament while the CHP has 80 deputies and the total seats of the two parties would be enough to win a vote of confidence.

The coalition between True Path and the CHP folded on September 20 and Mrs Çiller's attempt to form a minority government collapsed on Sunday when she failed to win a parliamentary vote of confidence. President Demirel con-

ferred with other parties but could not come up with an alternative coalition.

Meanwhile, the president approved a decree by Mrs Çiller's cabinet banning industrial action in the ports, railways and sugar industry, on the grounds that the strike was "disrupting public health and national security".

The other 270,000 strikers, in sectors such as non-sugar agri-

culture, oil, mining and forestry, are not covered by the decree.

Turkey's constitution allows the government to halt strike action for up to 60 days. "It's very undemocratic. The legal basis of a minority government which has just lost a vote of confidence doing this is also debatable," said Mr Yildirim Koc, a senior official of the Turkish trade union confederation.

He said before the pay offer was made that union leaders would meet, probably today, to decide whether to abide by the decree.

The political crisis erupted at a time when Mrs Çiller was trying to cure the country's financial ills and pushing for a customs union with the European Union at the end of the year.

The CHP is a strong supporter of improvements in Turkey's democracy and the lifting of restrictions on freedom of expression in order to secure the customs deal.

Istanbul shares ended slightly higher yesterday on perceptions of political stability returning, in spite of shedding some of the morning session's gains in profit-taking, brokers said.

The IMKB-100 ended 0.55 per cent or 26.6 points higher at 47,557.65. The IMKB-100 had ended 0.76 per cent higher at 47,656.80 in the morning session.

## Italy's justice minister set to lose vote

The future of the Italian government hangs on the outcome of a motion of no confidence in the senate today brought by the centre-left parties against Mr Filippo Mancuso, the justice minister.

The centre-left, headed by the Party of the Democratic Left (PDS), has a clear majority in the senate and political observers forecast yesterday that the vote was almost certain to go against Mr Mancuso. The uncertainty centres on whether Mr Mancuso agrees to accept the vote or fight it in the courts.

Mr Mancuso, a former judge, has indicated on several occasions he will not resign but will instead take the matter to the constitutional court. This will create an unprecedented constitutional situation at a time of growing political instability as the nine-month-old technocratic government of prime minister Lamberto Dini reaches the end of its limited mandate.

Any delay in resolving the issue will lead to questions about how long the government should be allowed to con-

tinue. The centre-left parties' dramatic initiative against the minister has removed any pretence that Mr Dini continues to preside over an autonomous government of technocrats.

The PDS and its allies, who provide the parliamentary backing for Mr Dini's government, have been pressing for the removal of Mr Mancuso since before the summer.

They accuse him of carrying out a vendetta against the main anti-corruption magistrates by initiating a series of inspections of their activities. The minister's actions, they claim, are undermining the operation of justice and prejudicing vital investigations.

Mr Mancuso insisted very vocally he was merely ensuring the due process of

law was observed, and in particular that the rights of the accused were properly safeguarded. He has focused attention on the activities of the Milan magistrates, the leading group attacking corruption, who have also brought the case against former prime minister

tre-left. Mr Mancuso has also done nothing to distance himself from the eulogies coming in his direction from the right-wing alliance headed by Mr Berlusconi.

Originally both Mr Dini and the centre-left parties had hoped to postpone the issue until after the 1996 budget had been passed by parliament.

If the vote goes against Mr Mancuso and he does not resign immediately, the cabinet is expected to formally withdraw its confidence in him. This would then permit President Oscar Luigi Scalfaro to revoke his ministerial mandate. But the legal situation is so new and unclear that it could take time to resolve the matter.

Even with Mr Mancuso accepting defeat with good grace, Mr Dini would face serious problems of political balance in finding a replacement. He may seek a figure who appeals to the centre-right so as to broaden the base of his support, and so acquire greater authority to govern until the end of Italy's six-month EU presidency next June.

## The Italian president can effectively sack the minister but the legal situation is so new and unclear that it could take some time to resolve

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Unemployment was "the hardest nut that we have to crack", said Mr Wolfgang Schäuble, the head of the Christian Democrats in the Bundestag. How to create jobs was "for everybody, the most important question concerning the future", declared Mr Jürgen Rüttgers, minister for education, science research and technology.

In a combative address that fleshed out Monday's speech of Chancellor Helmut Kohl and took swipes at the opposition Social Democratic and Bündnis 90/Green parties, Mr Schäuble said that Germany's problem was not a lack of jobs but that its labour was too expensive. Each year up to 1m foreign workers were allowed to work

## CDU to focus energies on unemployment

By Peter Norman in Karlsruhe

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in Germany even though 3.5m Germans were unemployed. Mr Schäuble called for savings and more individual responsibility to curb the rising cost of the social security system and the resulting increases in non-wage labour costs. The CDU wanted to build stronger incentives to work into the unemployment benefit and social security systems, including benefit cuts for social security recipients who refused the offer of a job.

Mr Rüttgers, who, as "minister for the future", carries cabinet responsibility for modernising Germany, said opposition to gene-based industries had cost Germany more than 60,000 biotechnology jobs. Also, the rules regulating media industries, which are the responsibility of authorities in the federal states, needed to be revised to encourage multimedia activities such as tele-banking, tele-shopping, tele-medicine and distance learning.

Mr Rüttgers said the proportion of school leavers going to university had increased to 35 per cent in 1994 from 6 per cent 30 years before. But this quantitative expansion had created a loss of quality. Specialised learning was no use if people had difficulty with reading, writing and maths.

## 'Poverty fatigue' stalks Czech politics

Klaus's government may yet find its support waning as election campaign begins, writes Vincent Boland

Few democratically elected leaders dominate their country's politics as totally as Mr Vaclav Klaus, the Czech prime minister, has done since coming to power in 1992. Though the next election is eight months off, Mr Klaus looks certain to remain in office.

Eight months is, of course, a long time in politics and

between now and the general election next June there will be opportunities to make mistakes. As the Czech Republic switches instinctively to election mode, cracks are appearing in the normally unified face of the government, and Mr Klaus is treading cautiously.

A lot has happened since Czechs last voted in 1992. The country has split with Slovakia, economic reforms have bitten deep, foreign capital has flooded in, the currency is convertible, and membership of the 25-nation club of industrial countries, the Organisation for Economic Co-operation and Development, is expected before the end of the year.

There is little overt evidence that people are much better off financially, however. Opinion polls suggest that many voters consider they gained little out of privatisation, which has been the driving force of the government's economic policies since it came to office in June 1992. They also show rising support for the opposition Social Democrats (CSSD), from 6.5 per cent at the last election to 18 per cent now. Support peaked at 23 per cent in August. Mr Klaus's Civic Democratic party (ODS), the dominant partner in the government, hovers around 27 per cent.

The election has already assumed centre stage in the political debate but 90 per cent of voters are still undecided. Mr Casimir Knight of the Cen-



Klaus has become the dominant political force in the country

tre for Political Analysis, a think-tank, says many voters will be influenced by "poverty fatigue" - the feeling that despite the reforms many voters do not believe they are financially better off.

Mr Milos Zeman, the unflappable CSSD leader, is hoping to benefit from this. "The election will be a vote on the social consequences of privatisation," he says.

The rise of the CSSD, a threatened strike by doctors and concern about the electoral fall-out from privatisation are putting pressure on the government. The strike threat led to the sacking of Mr Ludek Rubas, the health minister, last week.

The mood of the country's doctors reflects a crisis in the health service and may be emblematic of the general malaise. Mr Petr Pithard, a former prime minister, believes that 80 per cent of the profession voted for the ODS in 1992 but that less than 20 per cent would do so today because few of them are better off after three years of reforms.

The government is also wobbling over privatisation. The sale of stakes in the electricity and gas distribution companies, which would probably have led to stiff price rises for consumers, was announced early last month and then quickly postponed.

Mr Vladimir Dlouhy, the

Czech Republic	
Party	support*
ODS (Civic Democratic party)	27
CSSD (Social Democrats)	18
Christian Democrats	8
Communist party	7
ODA (Civic Democratic Alliance)	7
Others	15
Undecided	19

\*Opinion polls, October 1995

industry minister, pushed for the sales to be completed by next May, and privatisation ministry officials told a conference attended by foreign investors last month that they would proceed. Mr Klaus, however, is understood to have taken a unilateral decision to postpone them.

The government has pushed ahead with privatisation - in the past four months alone it has sold a stake in SPT Telecom, the telephone operator, for \$1.45bn and in the oil refineries, both to foreign investors. But analysts expect no significant sell-offs before June, especially any that might lead to price increases, such as in the electricity and gas sectors, or could spark political rows, such as reducing the state's large stakes in the main banks.

One political problem for Mr Klaus is the weakness of the Civic Democratic Alliance (ODA), his junior coalition partner. It has been committing a slow and public suicide since it became embroiled in a banking scandal and its leader,

Mr Jan Kalvoda, alleged earlier this year that he was being spied on by the ODS.

The party's support has nearly halved since January to 6 per cent, one point above the minimum needed to get into parliament. If it does not retain that minimum, Mr Klaus's job of forming a coalition after the election will be more difficult.

Mr Dlouhy, as the ODA's most prominent minister, is facing a challenge to distinguish his party from the ODS.

Meanwhile, analysts say Mr Zeman should not over-estimate his support. The CSSD has few prominent figures and lacks a clear alternative policy to the ODS's free-market agenda. The difference between them is largely one of degree. The party is unlikely to be in government after the election but it should at least be a more effective opposition.

As the richest and best organised party the ODS looks set to be the largest party again after the election, but a tough and even personal campaign is predicted. In a television debate with Mr Zeman on Sunday the prickly Mr Klaus became visibly irritated by his opponent's ironic point-scoring. Spin doctors at Ogilvy & Mather, the international advertising agency the ODS has hired to sell its campaign, may decide he will have to modify his aloofness to convince sceptical voters.

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# Madrid prepares for budget defeat

By Tom Burns in Madrid

Mr Felipe González's minority Socialist government is braced for the humiliation of losing the vote on its 1996 budget next week and is preparing alternative legislation that will keep the Spanish economy on track for European monetary union (Emu).

Mr Pedro Solbes, the economy and finance minister, yesterday termed opposition plans to throw out the budget an "act of folly" at a time when Spain faced two critical years in which it had to meet the Emu criteria for economic convergence.

Ironically, the defeat of next year's budget could help curb the public sector deficit in the short term because

the current budget will be carried forward to next year, keeping government spending at present levels. Failure by a government to gain approval for its annual budget for the coming year by December 31 means the existing one is automatically rolled over.

Mr Solbes said that, on paper, the development eased the government's task of whittling down the consolidated public deficit to 4.4 per cent of gross domestic product in 1996 from a forecast 5.9 per cent at the end of this year. The planned 1996 budget would have been more generous as it took account of inflation. Spending would only have been frozen in real terms - overall expenditure was to rise by 3.5 per cent in line with inflation.

He warned, however, that problems such as financing the social security system would increase and that in the absence of a new budget it was unrealistic to expect lower interest rates.

"If I were the governor of the Bank of Spain I would not introduce any cuts in such an environment," he said.

Mr Solbes said that although he believed the markets had already discounted the probability of the government's defeat, failure to introduce bridging fiscal measures would penalise the domestic economy. He would reassert the government's continued commitment to lower spending but a special law would raise pensions and civil service pay by 3.5 per cent to index them to projected 1996 inflation.

All three main opposition parties - the conservative Popular party, the Catalan nationalist party and the Communist-led United Left coalition - are due to present amendments rejecting the budget at its first parliamentary committee reading next Wednesday. Last month, the Catalan party, which had backed the government's two previous annual budgets, said it would no longer support the prime minister. The party, which faces regional elections next month, is trying to distance itself from the government, which has been discredited by a series of scandals.

The vote will mark the first defeat of a budget since democracy was restored to Spain in 1977. Although it

will not precipitate the immediate fall of the government, it underlines the government's fragility and sets the stage for general elections that Mr González says will be held next March, more than a year before they are due.

The three opposition parties will reject the budget for different and contradictory reasons - the conservatives want to keep social spending in check, the Communists want to increase it, and the Catalans have a separate agenda involving greater fiscal transfers to Catalonia. But, under parliamentary rules, there is one single vote on the budget and the combined votes of the three parties will ensure the government's defeat.

## Positive action proves negative for Bremen

By Judy Dempsey in Berlin

The government of the city state of Bremen believed it was taking an enlightened step towards giving women greater opportunities in the public sector when it passed a positive discrimination law in November 1990.

Bremen is a traditional working class city, with employment dominated by traditional male blue-collar jobs in the shipyards and docks.

Then governed by a Social Democratic-led coalition, it was one of several German states to pass legislation giving women preference for senior public sector positions.

In Bremen, only 10 per cent of such jobs were filled by women, whereas they held 40-50 per cent of the lowest level of jobs.

Court ruling that it contravened European law.

Mr Kalanke had applied for the job along with Ms Helke Glismann, now 53. Both had engineering diplomas, and both had worked for the city's horticultural department since the mid-1970s.

Mr Holger Bruns-Kösters, a spokesman for the city's department responsible for implementing the positive discrimination legislation, said: "We will now have to reconsider what to do. We hope the ruling will be taken up by Germany's federal labour court. In the meantime, I think we will have to stop our positive discrimination ruling."

But if Bremen is prepared to suspend the law, the reaction by other states suggests they will fight the European Court's decision.

"The ruling has been interpreted and turned into an instrument for safeguarding men's positions," said Ms Christine Bergmann, Berlin's senator for labour and women. "The Federal Republic will not allow the European Union to destroy the important process [of advancing women's rights]," she added.

## Paris bomb prompts fears of renewed attacks

Twenty nine people were injured, five of them seriously, yesterday in the latest of a series of suspected terrorist bombings to hit the French capital since the summer.

A bomb exploded in a commuter rail carriage at 7.08am near the Musée d'Orsay art gallery, renewing fears of further attacks across the country.

Two of the injured were last night reported to be in a critical condition.

The latest incident bore the hallmarks of seven bombings in the past three months,

Suspicion centres again on Islamic extremists, writes Andrew Jack

which are suspected of being linked to tensions between the French government and Islamic extremists in Algeria.

It came in spite of the fatal shooting by gendarmes near Lyons earlier this month of Khaled Kelkal, a young Algerian who the government claimed was at the centre of a network of Islamic extremist terrorists operating in the country.

The GIA, the Algerian-based Armed Islamic Group, has

claimed responsibility for the attacks, which it said were a response to France's continued support for the Algerian government.

However, members of the Algerian Islamic opposition movement maintain that the attacks may have been carried out by the country's secret police in an attempt to persuade the French government to maintain its support for the administration.

President Jacques Chirac

expressed "indignation" at the attack and pledged his government's determination to track down those responsible. Other organisations and a number of the country's Moslem leaders also expressed outrage at the attack.

President Chirac seemed set to go ahead with a meeting later this month with Mr Liamine Zerrouk, Algeria's president, in a move likely to further anger the Algerian opposition ahead of

presidential elections scheduled for November 16.

In the French parliament, Mr Alain Juppé, the prime minister, condemned the latest bombing and said that France had "no intention of interfering in the slightest way in the internal affairs of Algeria".

He deflected Mr Chirac's meeting and said the French government believed the only solution to the current difficulties of Algeria would be

a political one brought about through dialogue with everyone who rejected violence.

Police confirmed yesterday that the bomb in the latest incident was contained in a small blue camping gas canister, the same type of device that had been used in all the previous explosions.

The first - and the worst so far - of the attacks to hit France at the start of the campaign on July 25 killed seven people and wounded nearly 100 more on a train at St Michel in central Paris.

### EUROPEAN NEWS DIGEST

## Montedison gets back assets

Mr Sergio Cusani, a financial consultant and leading figure in Italy's corruption scandals, yesterday agreed to hand over almost £23bn (\$14m) in assets to Montedison, the industrial group formerly controlled by the Ferruzzi family. The assets, of which £21bn is in cash, had been held in an escrow account following Mr Cusani's conviction last year on corruption charges relating to the creation in 1988 of Enimont, a joint chemicals venture between Montedison and ENI, the state oil concern. The funds recovered are essentially undeclared assets of Montedison and its subsidiaries used for illicit purposes, including funding political parties.

The Cusani deal is the largest asset recovery by civil suit since the corruption scandals first broke in 1992. A Montedison spokesman said yesterday the group had so far recovered £250bn held illegally as a result of the Enimont affair and the mismanagement of the Ferruzzi era that ended with the Ferruzzi group's collapse in 1993. Of this, some £40bn had been handed over or sequestered from the Ferruzzi family and its representative, and a further £20bn from the family of the late Raul Gardini, who headed the group during the 1980s.

Montedison has an unresolved £1,000bn damages suit against accountants Price Waterhouse for the losses caused by the Ferruzzi-Gardini management.

Robert Graham, Rome

### French pledge on budget cut

Mr Jean Arthuis, French finance minister, yesterday sought to buttress support for the government's budget plans, claiming that spending cuts would be achieved through consultation and stressing that France would meet the deficit targets required for European monetary union. However, his address to parliament failed to quell market anxieties. The French franc fell by about two centimes against the D-Mark to trade at around FFfr3.506 and the stock market also lost ground.

Investors said the fragility of French financial markets reflected doubts about the government's ability to achieve its target of reducing the public sector deficit to below 3 per cent of GDP by 1997. The reduction, from a forecast 5 per cent this year, is needed to satisfy the conditions for monetary union.

The budget has come under attack from trade unions, who criticise its austerity, and from members of the governing coalition who want more spending cut. Yesterday, the government also came under fire for its proposals to curb health spending, one of the main factors behind the rising social security deficit.

John Ridding, Paris

### Fresh blow to Scharping

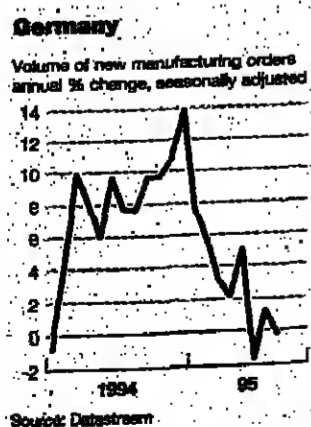
The German opposition Social Democratic party, already reeling from months of infighting, was yesterday dealt a further blow by one of its leading members. Mr Oskar Lafontaine, who headed the party in the 1990 elections and is one of its deputy leaders, surprised other senior officials during a meeting on Tuesday when he said that the leadership of the party and of the parliamentary party should be held by two different people.

Both jobs are held by Mr Rudolf Scharping, the embattled party leader. The comments are seen as a further attempt to undermine Mr Scharping, whose lacklustre performance has contributed to a fall in the party's popularity. According to press reports, Mr Lafontaine also said Mr Scharping had been wrong to remove Mr Gerhard Schröder, the outspoken state premier of Lower Saxony, from the job as economics spokesman.

Michael Lindemann, Bonn

### ECONOMIC WATCH

## German industrial orders fall



New orders for German industry in August fell following a strong rise a month earlier, but the government and analysts warned the figures should be treated with caution because of a recent changeover in the way they are calculated. The August figures may also be unrepresentative because they were affected by the summer holidays, the ministry said. August new orders fell 2.4 per cent compared with July and slipped 0.2 per cent compared to the same period a year earlier. A more representative measurement - the combined figures for July and August compared with the same two-month period a year earlier - showed that foreign orders had risen 4.7 per cent while domestic orders had fallen 1.3 per cent. Analysts said the figures indicated that export growth was only likely to slow later this year or early next.

Michael Lindemann, Bonn

West German wholesale prices rose by 0.4 per cent month-on-month in September after falling 0.5 per cent in August. The year-on-year rise was 1.3 per cent, compared to 1.0 per cent last month.

Italian industrial production rose by 6.3 per cent month-on-month in August, and by 9.9 per cent year-on-year.

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## NEWS: WORLD TRADE

## French favoured for Australian water bid

By Nikki Taft in Sydney

An Australian public service contract has been awarded to a consortium including a French company for the first time since France resumed nuclear testing in the Pacific in the teeth of widespread protests and boycott calls in the region.

United Water, a consortium 95 per cent-owned by France's Compagnie Générale des Eaux and Britain's Thames Water, has been chosen as the preferred bidder for a A\$1.5bn (US\$1.1bn) contract to manage Adelaide's water and sewerage systems for 15 years.

This is the biggest "outsourcing" contract to be awarded to date in the Australian water industry, which largely remains in state government hands. It will also probably be the largest water management contract awarded internationally this year.

Mr Mike Rann, South Australia's opposition leader, has warned that the government would be an "international laughing stock" if it signed a deal with French company in the middle of the testing programme.

In a pre-emptive move, Mr Malcolm Kinnaird, United's

chairman, stressed that United would be a SA-registered company, with South Australian directors included on its board. "It is our intention to gradually increase local equity once the company is established," he said. Executives have indicated that United will probably seek a listing on the Australian Stock Exchange.

United's rivals were North West Water Australia, an offshoot of Britain's largest water company, and a second consortium called South Australia Water Services, whose biggest shareholders were Lyonnaise des Eaux, the French water

company, Australia's Lend Lease and P&O Australia.

It was a condition of the bid that the winner promise to centre its Asia-Pacific headquarters in South Australia, and use this as base from which to pursue work in the region. However, in addition to bidding on potential cost-savings, each had to submit an "economic development plan", which could form the basis of a binding agreement on additional exports for the state over the term of the contract.

Yesterday, Mr John Olsen, South Australia's infrastructure minister, said the United

bid provided cost-savings of A\$164m over the contract term. In addition, the consortium members - who already have water-related work in Malaysia, Thailand and China, and are bidding on contracts in Manila and Shanghai - had guaranteed a A\$628m boost to exports over the next 15 years, and the creation of 1,100 jobs.

However, he added that the three tenders had been "highly competitive" and that the decision to negotiate final terms with United did not preclude the other bidders being brought back if details could not be sorted out. The govern-

ment is committed to starting the contract on January 1.

The United Water consortium, in which Thames and CGE have 47.5 per cent, also includes South Australia's Kinhill Engineers, with 5 per cent.

Protests against France's nuclear tests have not harmed its trade with other countries. France's foreign trade secretary Christine Chauvet said yesterday, Reuter reports from Singapore.

"Following the nuclear tests, we are checking what is happening to trade. Fortunately, there are no effects," she said during a visit to Singapore.

## WORLD TRADE NEWS DIGEST

## Russian gas for Macedonia soon

Macedonia will start receiving Russian natural gas next month through a 100km pipeline from the Bulgarian border to Skopje. The former Yugoslav republic agreed to buy 800,000 cubic metres yearly from Gazexport, the Russian state gas company, but its shrinking industrial sector is unlikely to use more than 130,000 cubic metres in 1996.

Mr Nikola Cerepanovskii, energy undersecretary, said: "There will probably be only 10 customers out of the 25 big companies that were supposed to switch to natural gas next year." He said the gas project cost \$60m, of which \$25m was covered by Russian loans. Macedonia will pay for the Russian gas in both products and hard currency.

Mr Cerepanovskii said that Macedonia would seek funding from international agencies for the second stage of the project: building a domestic gas network in Skopje and extending the gas pipeline south to Tito Vele. With Greece due to start receiving Russian natural gas early next year, Albania will be the only Balkan country which is not linked to the eastern European gas network.

Kerim Hope, Thessaloniki

## US group in Japan chip venture

Fujitsu of Japan and AMD of the US are jointly investing up to Y115bn (\$1.1bn) in a factory to manufacture flash memory chips in Japan. The two companies already have a joint production facility for flash memory chips, which are rewritable memory chips that can store data even when the power is cut off.

The new plant will be located near the existing plant in Aizu Wakamatsu city and is expected to come on stream in 1997 with a production capacity of between 20,000 and 30,000 eight-inch wafers a month. Details are still being discussed, Fujitsu said.

The decision by Fujitsu and AMD to expand their flash memory operations reflects growing demand for the chips which are used in many portable applications, such as mobile phones and personal computers.

Michiko Nakamoto, Tokyo

## Toyota plans Indonesia plant

Toyota of Japan plans to build a second plant in Indonesia because of increasing vehicle demand in the region. The company has bought 100 hectares of land in a Jakarta suburb for the plant and construction is likely to start early next year but details, such as investment costs, output volume and the types of vehicles to be made, have not been decided.

The plant will be built by Toyota-Astra Motor, a venture in which Toyota owns 49 per cent and Astra International, the Indonesian group, holds the rest.

The venture made 80,000 Toyota-designed vehicles in 1994, up from 51,535 a year earlier.

Reuter, Tokyo

## Taiwan in \$750m Thai venture

Taiwan's Tuntex Group will invest \$750m to build its second petrochemical plant in Thailand. The purified terephthalic acid (PTA) plant will have an annual production capacity of 900,000 tonnes, nearly tripling the output of Tuntex's and Thailand's first PTA plant, which came on stream last month. Annual production capacity at the first plant will also be expanded from 350,000 tonnes to 420,000 at a cost of \$35m.

PTA is a polyester raw material used to make synthetic fibre. The move is part of a long-term plan by Tuntex to become a vertically integrated textile producer in Thailand.

Ted Sardaiche, Bangkok

■ Samsung of South Korea will build two 127,000 tonne strengthened tankers to transport crude oil from the Hibernia project off Newfoundland to east coast terminals. The order is worth about US\$200m and the owners have taken an option on a third vessel, Hibernia, with projected output of 150,000 b/d, starts production late in 1997.

Robert Gibbens, Montreal

■ Northern Telecom, the Canadian telecommunications equipment maker and a supplier to China since 1972, said its Guangdong-NorTel joint venture would supply \$200m worth of digital switching gear for customers in Guangdong province and elsewhere.

Robert Gibbens

■ A consortium led by Alcatel Submarine Networks and including Italy's Maristal has won a \$38m contract for an optic fibre telecommunications link between Barcelona, Spain and Savona, Italy. Alcatel Submarine Networks will make equipment for the terminal station and relays in France and Britain and will produce the cable with Maristal in France and Italy. The 760km underwater link is due to start operating commercially in December next year.

Reuter, Paris

■ Daewoo Corporation, a unit of South Korea's Daewoo Group, plans to build a business centre in Warsaw with a total investment of \$38m. Daewoo obtained the Seoul government's approval for the project last week.

Reuter, Warsaw

## Palestinian trade pact hailed by Kantor

By Julian Ozzanne in Amman

The US said yesterday it had finalised a free trade deal with the Palestinian authorities which would allow exports from the West Bank and Gaza duty-free access to US markets.

The US-Palestinian deal came as Jordan said yesterday it expected to approve a long-delayed trade accord with Israel giving Jordanian exports preferential access to Israel.

Mr Mickey Kantor, the US trade representative, said the agreement with Palestinians replaced previous arrangements which allowed Palestinian exports to enter the US under the General System of Preferences and marked Washington's commitment to strengthening the peace process.

Mr Kantor said the agreement would boost jobs and the creation of industrial zones in Palestinian territories. In return, the Palestinian Authority pledged to work towards lifting the Arab economic boycott of Israel.

Mr Kantor is visiting Israel to review the US-Israel Free Trade Area Agreement which eliminated tariffs on trade between the two countries on January 1 this year. The US trade representative is seeking to address outstanding US-Israel trade issues, including more access to Israel's agricultural market and the application of standards and regulations, for example in packaging sizes, that would allow freer US competition in Israel.

In Jordan Mr Ali Abu El-Ragheb, minister of trade and industry, said the government had nearly agreed its trade accord with Israel, which will allow the first exchange of goods since the 1994 Jordan-Israel peace treaty.

Mr Abu El-Ragheb said disputes over dumping and Israeli subsidies had been amicably resolved.

## Unctad chief to focus on poorest nations

By Frances Williams in Geneva

Mr Rubens Ricupero, new head of the United Nations Conference on Trade and Development, yesterday delivered a robust defence of the beleaguered organisation and said it would focus on "the forgotten agenda" of the world's poor nations.

Speaking to journalists for the first time since becoming Unctad secretary-general last month, Mr Ricupero rejected charges that Unctad's work duplicated or overlapped with that of the World Trade Organisation, its Geneva neighbour.

The WTO's main functions were to set and administer international trade rules and to settle disputes. Unctad's role was to consider trade and other issues in relation to development and to give developing countries practical help in gaining access to world markets.

"I see no problems on the horizon" in relation to the WTO, Mr Ricupero said, adding that he and Mr Renato Rugg-

iero, WTO director-general, were old friends. They had already met to discuss co-operation, including the implementation of developing country projects through the Geneva-based International Trade Centre, which is funded jointly by the two organisations.

The Group of Seven summit in June recommended that Unctad's role be reviewed and other critics have called for its abolition. However, the appointment for four years of Mr Ricupero, a respected Brazilian diplomat and former finance minister, has given it a new sense of security.

Mr Ricupero said yesterday one of his main concerns was the marginalisation of many developing countries bypassed by improvements in the trading system.

Globalisation of production and trade liberalisation were mostly of benefit to manufactured goods, often high-tech products, but had very little impact on commodities, he said. Yet three-quarters of Africa's workforce depended

on commodity production. Unctad remained one of the few organisations still interested in the problems associated with commodities, Mr Ricupero said. He drew attention to "the forgotten agenda" of issues left behind by the Uruguay Round of global trade talks and its predecessors, including some of long standing such as high tariffs on certain products exported by developing nations.

Unctad could play a useful role in preparing the ground for future WTO negotiations such as those on competition rules, he added.

Mr Ricupero was Brazil's ambassador to Gatt, the WTO's forerunner, from 1987 to 1991. As finance minister, he oversaw last year's currency reform but was forced to resign after a televised gaffe in which he admitted using his position to help the election campaign of Mr Fernando Henrique Cardoso, now Brazil's president.

Reuter adds: A United Nations survey, published yesterday to mark the organisa-



Rubens Ricupero yesterday: forgotten agenda

tion's 50th anniversary, shows three fifths of staff think bureaucracy is its greatest weakness - striking a chord with leading US right-wingers Mr Jesse Helms and Mr Newt Gingrich, whose attacks have soured the organisation's birth-

day celebrations. Recruitment procedures and career development are also widely criticised by staff - two out of three say friends "higher up" are the secret to promotion - and less than 3 per cent praise the UN as efficient.

## Shoemaker survives Albanian strike

By Jane Martinson

After three years, Filanto, one of Italy's largest privately owned shoemakers, has mixed feelings about its experience as one of Albania's first foreign investors.

Involved in a deal which will lead to a new factory being built before the end of the year, the company still bears the scars of a bitter five-month long strike last year.

Mr Antonio Filograna, Filanto founder and president, said the problems his company had faced in Albania compared unfavourably with those in other eastern European countries, including Ukraine, Russia and Bulgaria.

Yet the group plans to spend up to \$10m in developing its Tirana base next year, depending on the results of parliamen-

tary elections in the spring.

The nadir of Filanto's Albanian experience came during the strike at its Tirana factory which ended last November. Filanto had taken over the old state-run shoe company on the capital's Rruga e Fabrika Kepuceve ("shoe factory road"), in a deal which left the state with a 33 per cent stake.

The company's involvement typifies early investment in the country. According to the Albanian Centre for Foreign Investment Promotion, the country has attracted more than 400 joint ventures, of which 110 involve industry and food processing and 235 involve trade. The Balkan state's cheap labour and geography have attracted European makers of clothes and leather goods.

The Filanto deal was attractive. The cutting and stitching

of shoe uppers is relatively unskilled but labour-intensive, work. Albanian wages are between 50 per cent and 80 per cent less than those in Italy, according to Mr Raffaele Brunori, general manager at the Tirana factory. It takes just four hours for shoe uppers, cut and stitched in Tirana, to arrive in Casarano, the company's base in southern Italy, where they are finished.

Last year's strike was chiefly over pay but there had also been a number of job losses, a programme which escalated after the strike ended. At the end of the dispute the 820-strong workforce inherited from the state-run enterprise had shrunk to 350. The company had spent \$3.6m on renovating two sections of the large site but estimates a L100m (\$62,000) loss from the closure.

As difficulties in Tirana grew, Filanto extended an agreement to produce uppers with Qendra Perpunimit to Lekureve, a privately owned leather centre in Shijak, near the port of Durrës. The company employs 350 people. This time Filanto offered no contracts and no investment. "We haven't invested a penny but we've guaranteed much work," said Mr Brunori.

Politicians and international aid agencies criticised such agreements for showing a lack of commitment. Mr Filograna defends his company's move as creating jobs, and transferring skills and foreign currency. The company, which supplies a number of large outlets such as the Marks and Spencer of the UK, also has a quality control and training programme.

Filanto is now concentrating on improving productivity. Each Albanian employee makes half the number of shoes an Italian would, said Mr Brunori.

"In the beginning these Italians thought they could arrive here and productivity would be like it is in Italy. It takes longer than that," said Mrs Vjollca Gaxhi, who has worked at the shoe factory for 15 years.

Filanto appears prepared to wait, in spite of the difficulties. As well as the new factory and the Tirana development plans it is considering moves into the domestic market and the rest of eastern Europe from its Albanian base. Its plans will depend on the success of the supportive Democratic party in next spring's elections and the continuing performance of its staff.

## NEWS: INTERNATIONAL

## New elections bring South Africa down to earth

Roger Matthews reports on local polls vital to delivering on the heady hopes of last year

However hard South African politicians campaign for the local elections on November 1, they cannot escape the fact that for many people democracy has already had its finest hour. Nothing is ever likely to match the emotion and excitement of the elections on April 27 last year which largely buried the apartheid system and brought the African National Congress to power at the head of a government of national unity.

But it was also a case of enjoying the cherry before the cake was more than half baked. The election of a national parliament and provincial assemblies had yet to be complemented by democratic local authorities, designed by the interim constitution to play a vital role in delivering the promises made by the newly-elected politicians.

President Nelson Mandela reported earlier this year that many members of the black community believed that April

27 was the end of a process, and the purpose of further elections could only be to remove him from office. This was one explanation advanced by Mr Mandela to explain why more people have not registered to vote next month. In spite of an intensive campaign, the national average is still only 70 per cent.

Ensuring that most of the 70 per cent cast their votes and that the balloting is seen to be efficient and fair will be almost as important as the results. Whereas last year the manifold failures in voting administration and suspicions of fraud were overlooked in the general desire to achieve a politically acceptable result, this time there is likely to be less goodwill and more challenges to procedural errors.

The procedures are also more complex. Instead of voting once for a single party at any polling station, electors this time will be making up to three choices in large metropolitan areas, must have their

names on a list, and vote at a specific location. All the main parties accept that there will be voter frustration, either because the unregistered are turned away or because people have not been informed where they should vote.

For the ANC it is vital that the new structures assume power smoothly. Campaigning under the slogan "A better life - let's make it happen where we live", the ANC argues that only when local government is properly established can it deliver the basic services promised in the flagship reconstruction and development programme. The ANC's 6,000 candidates have been told to fight a community-based campaign, and it rejects suggestions that the results will be a judgment on the party's national performance.

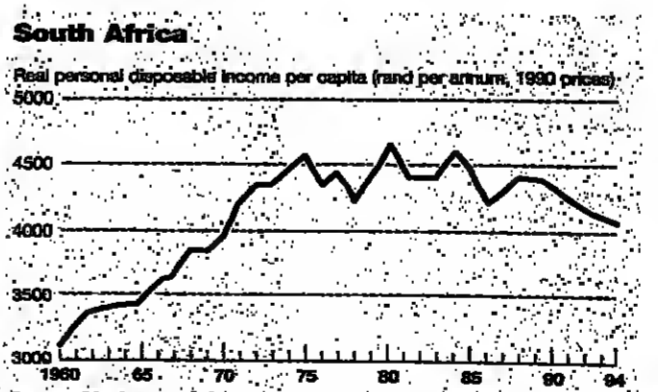
But this will not stop the National party, the ANC's coalition partner, or the Democratic party, urgently needing to improve on its poor general election performance, from

seizing on issues of national concern.

Throughout Johannesburg their election posters concentrate heavily on crime, an issue which has become the subject of bitter exchanges between the ANC and Mr FW de Klerk, deputy president and leader of the National party. Nor will it stop the ANC's opponents pointing out that in 16 months the government has constructed 10,000 new houses, a modest start to the 1m it pledged during its five-year term of office.

Mr Tom Lodge, professor of politics at the University of the Witwatersrand, believes that a combination of voter apathy, typical of local elections worldwide, and the emergence of a small protest vote, could result in the ANC getting rather less than the 62 per cent of the vote it won last year. But he does not think the decline will be politically significant.

For other parties the results could be more critical,



especially for the Freedom Front, led by General Coetzee Viljoen, who is campaigning on his demand for *volkstate* (people's states), autonomous areas for the country's 2.5m Afrikaners. Gen Viljoen believes that a strong performance by the 1,000 candidates of the Freedom Front would substantially strengthen his case, and the prospects for his party's

demands being accepted by the government and the Constitutional Assembly.

"The Afrikaner must be kept in the political mainstream," he said last week. "We may be small in numbers, but we are strong in influence. We reject the National party's view that South Africa must become a racial melting pot and believe that self-determination is a demonstrably workable option

## Aziz says Iraq will change

Iraq's deputy prime minister yesterday promised more political change, with parliamentary elections due by February and possibly a presidential election with more than one candidate in the future.

Mr Tariq Aziz, speaking after Mr Saddam Hussein won more than 99 per cent in Sunday's referendum on his presidency, tried to pre-empt western criticism of the voting, saying the west sought only hegemony over Iraqi oil.

"The referendum's only a first step. Other steps will follow along the path of transition from revolutionary to constitutional legitimacy," Mr Aziz said.

Reuter, Baghdad

## Zambia threatens to deport Kaunda

Mr Kenneth Kaunda, Zambian president for 27 years until 1991, has been threatened with deportation in the latest twist in an escalating battle with President Frederick Chiluba.

Mr Chitalu Sampa, home affairs minister, said Mr Kaunda, 71, could be deported for ruling Zambia "illegally" before 1970 when he renounced Malawian citizenship.

"The government is satisfied the former president is not a Zambian and necessary work is being done to see that the law is applied... We are still investigating and shall accordingly deal with him just like any other alien," he said.

Reuter, Lusaka

## Nigeria dismisses official who opposed IMF

By Michael Holman, Africa Editor

Nigeria's most senior civil servant, widely believed to have opposed efforts to renew economic policy agreements with the World Bank and IMF, has been dismissed, the country's state television service reported yesterday.

Citing an official statement

issued in the capital Abuja, it said that Mr Aminu Saleh, secretary to the military government of General Sani Abacha, had been replaced in an acting capacity by Gidado Idris, director-general of the ministry of finance.

It said the change was effective immediately. No reason was given for Mr Saleh's removal.

The development comes shortly after Mr Anthony Ani, Nigeria's finance minister, and Chief Ernest Shonekan, the former civilian head of administration, held talks in Washington with the Bank and the Fund.

The two men yesterday addressed a seminar in London on investment in Nigeria, organised by the Nigerian-Brit-

ish Chamber of Commerce.

Questioned on the outcome of the Washington talks, Mr Ani said they had gone well, but gave few details. Among the obstacles to an IMF agreement is the government's attempt to recover control of four of Nigeria's top banks, in which government shares were sold off under its privatisation programme.

Mr Ani can, however, point to some success in his efforts to reduce the budget deficit, and has taken up to N130bn (\$960m) out of the money supply in an attempt to curb inflation and maintain a stable exchange rate.

An IMF deal is an essential step to sustained recovery, as it is a pre-condition to any rescheduling of the country's

external debt, which including arrears is approaching \$40bn.

Mr Saleh's removal is the first major change in the administration since October 1. Gen Abacha then announced a programme to hand over to an elected government in three years time, a period his critics and western governments have criticised as too long.



Shonekan: talks with IMF

NEWS: ASIA-PACIFIC

# Manila cracks down on military crime

By Edward Luce in Manila

The Philippine government said yesterday it would set up a high level anti-crime unit to combat increasing police and military involvement in a new wave of kidnappings and bank robberies.

The move follows the decision by President Fidel Ramos last week to assume full control of the government's anti-crime drive - a rebuff for Mr Joseph Estrada, his vice-president and the previous head of law enforcement.

Mr Estrada, widely touted as a successor to President Ramos when his term ends in 1998, is judged to have failed in his role as "anti-crime czar". He was also accused earlier this year of having masterminded the extra-judicial execution of 11 bank robbers in the back of

a van. The vice-president said they had been killed in a police shoot-out.

The move to create a special task force to counter organised crime by men in uniform was welcomed by anti-crime groups. "I hope it really produces results," said Ms Tessa Ang-See, head of a Chinese-Filipino anti-kidnapping group yesterday.

In the past high-ranking generals and officers have been implicated in kidnappings of Chinese-Filipinos only to be retired from service which allows them to pursue their criminal activities full-time," she said.

The government says there have been 105 cases of kidnapping or attempted kidnaps this year, double the rate in 1994. Unlike previously, when a rash of kidnappings of Chinese bus-

nessmen and their family members led to a rapid outflow of capital from the Philippines, prominent indigenous Filipino families are the targets this year.

Until earlier this year the authorities believed a campaign had successfully eradicated most of the kidnapping groups.

However, Ms Ang-See said the government had evidence to show that the Red Scorpions (RSG), a group of former military intelligence officers involved in kidnappings in 1993, had renewed their activities.

The government had previously claimed that the RSG, which is mainly composed of former anti-communist intelligence officers, had been wiped out.

# Suharto revives communist spectre

Jakarta rekindles fears of left-wing menace in drive to bolster its legitimacy

In most countries, communism is a dead issue, but, if the Indonesian government and military are to be believed, the threat of a communist resurgence still lurks in every corner.

Government ministers and generals have in the past month issued regular warnings to the public that "communists" are threatening to destabilise the unity of the 50-year-old republic.

President Suharto has also joined the chorus, warning the younger generation that a "certain formless organisation" has been actively spreading communist teachings in Indonesia.

The warnings have less to do with a real communist threat than with the New Order regime's concerns about its legitimacy. President Suharto is serving his sixth five-year term, having ruled since the abortive 1965 coup which his regime has blamed on the outlawed PKI, the Indonesian communist party.

It is not the first time the 30-year old regime has dragged communism out of the broom cupboard and paraded it as a public enemy. What appears to have sparked the latest government wave of anti-communism is a book by Mr Oei Tjoe Tat, a former assistant to the late President Sukarno, who was ousted by President Suharto after the failed coup's aftermath.

In his book, which was banned by the government, Mr Oei describes his version of events surrounding the 1965 coup attempt, in which six generals were murdered. His message is that Mr Suharto, a former general himself, may have been far more instrumental in the coup than New Order admits.

Mr Suharto's government claims the coup attempt was engineered by the PKI which formed one of Sukarno's strongest pillars of support. In the aftermath, about half a million communist sympathisers and suspected communists are believed to have been killed either by the army or by a population encouraged to take revenge.

Set against this short bout of forgiveness - prompted by the country's 50th independence day celebrations in August - is the fact that a number of political prisoners serving sentences imposed after the coup remain on death row.

Former ETs - it stands for "ex-tahanan politik", or former political prisoners - are still discriminated against. Information about former ETs remains on the government's centralised computer system and their activities are monitored and restricted.

Keeping the fear of communism alive helps bolster the argument that the New Order government is still needed to protect the country's interests.

Mr Suharto is widely expected to run again for president at the next elections in 1998. With restrictions on licensed opposition parties, there is no doubt that he will be voted in if he runs.

To illustrate how deeply the threat of communism has been drilled into many Indonesians, one Balinese wrote to the national daily *Republika*, pleading with his fellow countrymen not to belittle the communist threat.

"It can regain power whenever conflict and social gaps prevail. Shortcomings in development as well as slander and provocation can help communism," he wrote. "Communism still exists in neighbouring countries. Its negative influence can most likely penetrate this country."

Meanwhile, the calls are increasing for more democratic rule and accountable government, particularly from those born after the 1960s massacres. "Youths make easy prey, especially university students who did not undergo the bitter historical experience of the [failed coup]," Mr Hayono



A mural dating from just after the attempted coup showing President Suharto as saviour of Indonesia from communism with the legend: 'Awakening of the 1966 generation'

Indonesian army general chief of staff Soeyono has named three leading dissidents as the main figures behind groups said to be a security threat, newspapers said yesterday.

Gen Soeyono identified banned author Mr Pramedyo Ananta Tora, scholar Mr George Aditjondro and labour leader Mr Mchitar Pakpahan as ringleaders. "These organisations change their form constantly but the people behind them are always the same," the Jakarta Post quoted him as saying. "Their objective is clear: to topple the government, split the Indonesian armed forces (ABRI) and set ABRI against the people and destroy the nation," he said. The activities of the groups are said to bear the hallmarks of the banned Indonesian Communist party.

Jaman, minister for youth affairs and sports, warned recently.

The government's concern is that books such as Mr Oei's can further inflame those demands, furnishing them with ammunition which could challenge the basis of the New Order's legitimacy.

It is clear the government's "communists" include anyone who speaks out against human rights abuses, criticises Indonesia's justice system or calls for democracy.

It is also clear that open discussion about the 1965 coup remains taboo. While a number of those imprisoned for their alleged involvement in the 1965 coup have been executed, no-one has been held to account for the massacres.

Manuela Saragosa

ASIA-PACIFIC NEWS DIGEST

## Japan's money growth slows

Japanese money supply grew at an annual 2.5 per cent in September, from a revised 2.9 per cent in August, according to a preliminary report by the Bank of Japan.

The steady growth rate in benchmark money supply, M2 plus certificates of deposit, came in spite of a radical easing in monetary conditions in September. The BOJ cut the official discount rate on September 8 to 0.5 per cent, the lowest of any leading economy in post-war years and drove money market rates even lower. However, a BOJ official said yesterday it was too early to judge the impact of the rate cuts.

A broader measure of liquidity, also including postal savings and government bonds, grew at 3.8 per cent last month, compared with 3.6 per cent in August. While low, this was broadly consistent with economic recovery, said Mr Dick Beason of James Capel Pacific.

William Dawkins, Tokyo

## Move on bank confidence urged

One of Japan's leading commercial bankers yesterday called on the country's banks to move quickly to restore international confidence in the fragile Japanese financial system.

Mr Toru Hashimoto, chairman of the Federation of Bankers' Associations, said banks needed to redouble their efforts to eliminate the so-called "Japan premium", the extra charge now added to interest rates on funds borrowed by Japanese banks in international markets. Banks needed to improve their risk management and seek ways of strengthening their profit base.

Gerard Baker, Tokyo

## Uttar Pradesh regime hit

The Bharatiya Janata party (BJP), India's largest opposition party, said yesterday it would withdraw support for the government of Ms Mayawati, the chief minister of Uttar Pradesh, India's most populous and politically important state. The BJP's move will add to the political uncertainty in other Indian states including Gujarat, where a BJP government elected in February is facing a revolt from within the party.

Political observers had predicted that the four-and-a-half month old alliance between Ms Mayawati and the BJP would not last. Ms Mayawati, a former teacher and law graduate, is a Dalit or "untouchable", belonging to India's poorest and lowest caste. In a country riddled with caste distinctions, she became the first member of the lower castes to be elected chief minister of a state. The Hindu right-wing BJP has traditionally represented the upper castes.

Shiraz Siddiqui, New Delhi

## Australian deficit improving

Mr Kim Beazley, Australia's finance minister, said yesterday the federal government would revise downward its current account deficit forecast for 1995/6 in January next year. In the May budget, the government indicated that it expected a current account deficit of A\$27bn (\$21.6bn) in the current financial year - little changed from the 1994/5 figure and about 5.5 per cent of gross domestic product. However, the slowdown in the economy, coupled with improvement in prices for commodity exports and the ending of the eastern states' drought has led to an improvement in the trade position. Most analysts expect a 1995/6 deficit of around A\$22bn.

● Economic life in Western Australia was severely disrupted yesterday as local workers joined a 24-hour strike in protest at the state government's latest industrial relations reform proposals, while unions in other states imposed a "blockade". However business groups said the impact had been less severe than on similar occasions in the past.

Nikki Tail, Sydney

## China envoy returning to US

China's ambassador to the US will return to his post in Washington this week, some four months after Beijing withdrew him in protest over a US visit by Taiwan's president. Foreign Ministry spokesman Chen Jian said ambassador Li Daoyu would go to Washington this week and attend next week's summit in New York between the US and Chinese presidents.

Tony Walker, Beijing

## Intrusion deepens Korean tensions

By John Burton in Seoul

The fatal shooting of an armed North Korean infiltrator by South Korean soldiers yesterday is likely to deepen tensions between the two Koreas.

The North Korean soldier, wearing a diving suit and apparently on a reconnaissance mission, was killed early yesterday morning along the banks of the Imjin river, just south of the demilitarised zone that divides the Korean peninsula.

South Korean President Kim Young-sam, who is on a state visit to Canada, said the incident proved "North Korea continues to maintain its belligerent stance toward South Korea".

The defence ministry in Seoul warned that further infiltrations would trigger a strong retaliation. It called the incident a deliberate provocation against South Korea that was meant to rupture efforts at reconciliation.

It was the first interception of a North Korean intruder since three were shot dead near the central front lines in May 1992.

The infiltration attempt was a violation of the armistice agreement that ended the 1950-53 Korean war, and the United Nations command, which represents the US and South Korea, is expected to file a protest with North Korea.

It is uncertain how Pyongyang will respond, since it no longer recognises the armistice agreement as it pushes for a formal peace treaty with the US.

The incident is expected to strengthen Seoul's new tough approach to relations with North Korea.

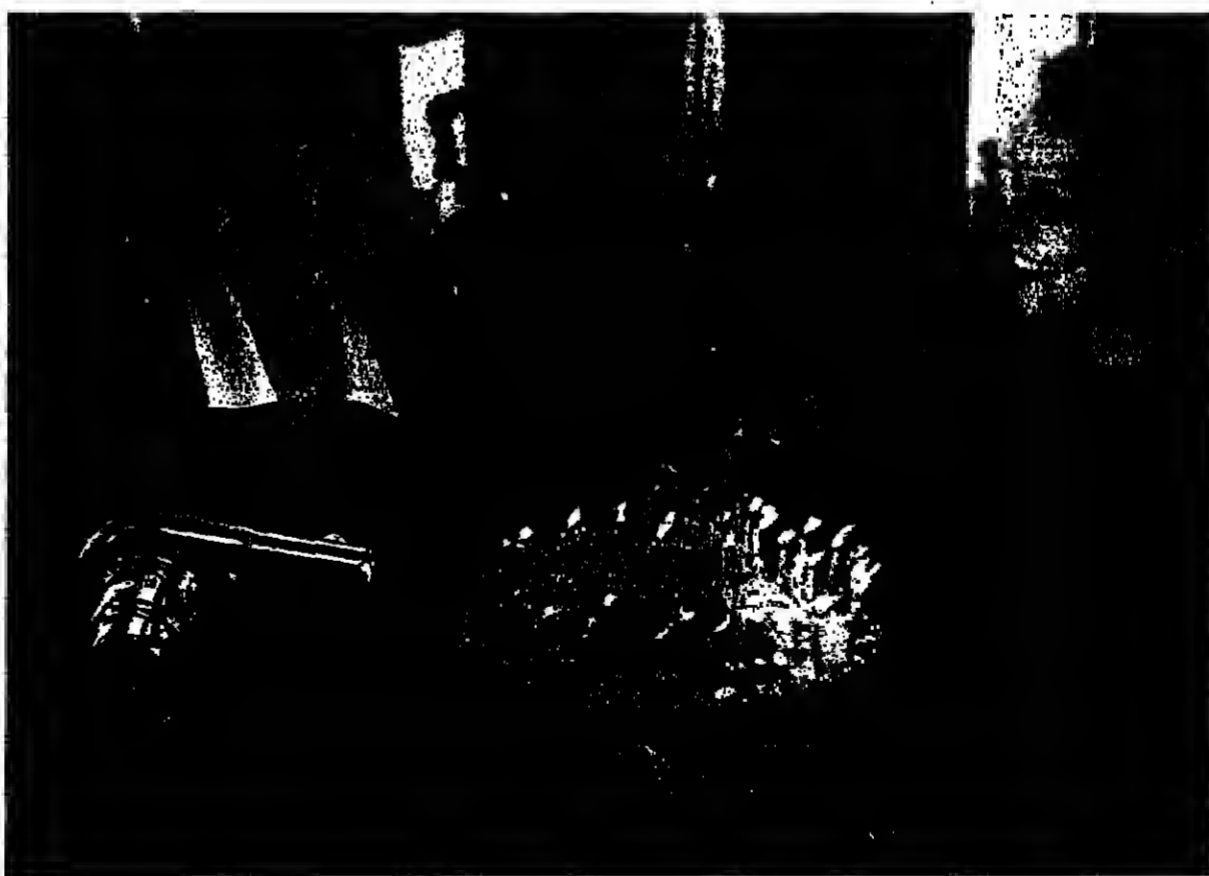
In a policy statement on the North Korean issue this week, Mr Kim said Seoul would not provide more economic aid to Pyongyang until its leadership displayed a more conciliatory attitude.

South Korea this summer provided 150,000 tonnes of free rice to a hungry North Korea in an attempt to re-open stalled political talks. But North Korea has shown little willingness to engage in dialogue.

The Seoul government also came under widespread public criticism for being too generous to North Korea with little to show for it. Since then, it has switched to a more hard-line policy.

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## NEWS: THE AMERICAS

## Clinton team starts Congress troops plea

By Jurek Martin in Washington and Laura Stiller in Zagreb

The Clinton administration yesterday began a drive to persuade Congress not to block the deployment of more than 20,000 US troops as part of Nato's planned peace enforcement presence in Bosnia.

Mr Warren Christopher and Mr William Perry, secretaries of state and defence, General John Shalikashvili, chairman of the joint chiefs of staff, and General George Joulwan, Nato supreme commander, started two days of testimony, the first of four testimony rounds to various congressional committees.

They all told the Senate armed services committee that there would be no peace in Bosnia without the Nato presence, and that Nato could not operate effectively without the US.

Peas in Bosnia, Mr Perry said, "will affect the vital national security interests of the United States". It would not merely lessen the dangers of a wider Balkan war but demonstrate the credibility of Nato, to which US leadership was indispensable. "I believe," Mr Perry said, "that US security is inextricably linked with European security and we know, from the harsh lessons of experience, that when the US turns its back on European instability, in the long run it is

forced to return at a much greater price."

Gen Shalikashvili emphasised that the US division (about 30,000 troops), plus logistical, air and naval support forces, would be operating under "robust Nato rules of engagement". There would be no "dual key" chain of command with the UN or other nations, though he hoped for some Russian participation under Nato.

Gen Shalikashvili said the Nato force should be in Bosnia for no more than 12 months, though remnants might remain. "As in Haiti," he said, "we prefer to go in very heavy."

Senators from both parties have charged that the administration has

not yet made the case for US involvement. The administration says there is no constitutional requirement for prior approval by Congress of a US deployment but, as a practical matter, consultation is necessary because the legislature must authorise funding. Yesterday, the administration told the committee that the cost would be between \$1bn-\$2bn, adding that other nations, including Russia if it participated, would be asked to bear their full financial shares.

Mr Christopher warned Croatia to desist from military action in the Serb-held enclave of eastern Slavonia, where an offensive by Zagreb's forces is widely seen as imminent. Croatia

yesterday rejected an effort by US and UN officials to arrange negotiations on the status of eastern Slavonia. "We've made it absolutely clear to [Croatian President Franjo] Tudman that we think that area should not be conquered or taken by force," said the secretary of state. "He knows it will be very costly to Croatia and its desire to become part of western institutions."

In London, where Mr Malcolm Rifkind, the UK foreign secretary discussed former Yugoslavia with Mr Tony Lake, the US national security adviser, US officials said Croatia's prospects of ties with the European Union were at stake.

## Treasury moves to calm fears over \$100 bill forgeries

By George Graham in Washington

The US Treasury yesterday moved to calm worries about the safety of its \$100 banknotes in the wake of reports that billions of dollars worth of undetectable forgeries were flooding out of Lebanon.

Mr Ronald Noble, Treasury

undersecretary for enforcement, acknowledged that there were "some highly deceptive counterfeit notes in circulation from the Middle East, as well as other notes from Canada and South America".

But he said a report in the New Yorker magazine claiming the forgeries could fool the Federal Reserve's scanning

machines greatly exaggerated the danger, adding that there was no evidence the notes were circulating in large quantities.

"The notes can be detected by the Federal Reserve and by cash handlers in the US and abroad," Mr Noble said.

The reports have, nevertheless, alarmed some foreign

holders of US currency, who were jumpy after the Treasury announced last month that it would introduce new and more secure \$100 bills next year and new \$50 bills in 1997.

Two thirds of the estimated \$300bn of US currency in circulation is held abroad, where it often supersedes the domestic currency as a stable asset for

investors. News of the new bills provoked fears, especially in Russia and Ukraine, that the old ones would not be honoured.

Mr John Hawke, Treasury undersecretary for domestic finance, yesterday tried to reassure the Russians. "The old notes will remain valid for as long as an individual wants

to hold them," he said.

The new \$100 bills include a new watermark echoing the portrait of Benjamin Franklin printed on the face of the note, a security thread that glows red when exposed to ultraviolet light, and ink in the lower right hand corner that changes from green to black when viewed from different angles.

## US production figures signal modest growth

By Michael Prowse in Washington

US industrial production fell in September for the first time in five months, indicating that economic growth is likely to remain moderate.

The Federal Reserve said manufacturing output rose 0.2 per cent last month but the increase was not sufficient to offset a sharp drop in electricity usage following the return of cooler weather.

Production as a whole fell 0.2 per cent following an erratic 1.1 per cent gain in August.

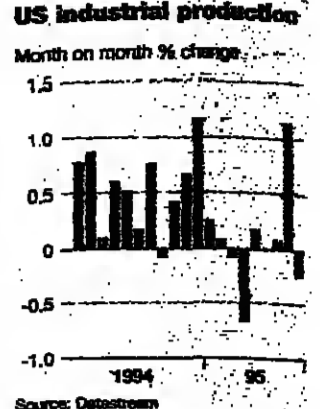
The rate of industrial capacity utilisation declined to 83.8 per cent against 84.2 per cent in August, a further sign that inflationary pressures are receding.

The overall weakness of production mainly reflected a 5.4 per cent drop in output of utilities last month - a reaction to a surge in electricity usage during an unusually hot August.

However, other sectors showed little vigour. Output of consumer goods fell 0.5 per cent against a 1.4 per cent gain in August. Output of materials dropped 0.2 per cent after a 1 per cent gain.

The figures were slightly weaker than most Wall Street economists expected, but appeared consistent with a consensus projection of moderate non-inflationary growth in the months ahead.

Some economists, however, fear that growth will be weaker than generally expected, because corporate inventories remain high relative to consumer demand and because growth of capital spending is slowing down rapidly.



Source: Commerce Dept.

"I don't expect strong production numbers for the rest of the year because manufacturers still have to shed some inventories," said Mr David Resler, chief economist at Nomura Securities in New York.

He said there was a strong parallel between economic trends this year and those in 1989, shortly before the economy slid into the 1990/91 recession.

While offering few clues about the longevity of the current upturn, yesterday's figures confirmed that a modest economic rebound did occur in the third quarter.

Industrial production grew at an annual rate of 3.5 per cent over this period, following a decline of 2.3 per cent in the previous three months.

## 8% TREASURY STOCK 2015

INTEREST PAYABLE HALF-YEARLY ON 7 JUNE AND 7 DECEMBER FOR AUCTION ON A BID PRICE BASIS ON 25 OCTOBER 1995

PAYABLE IN FULL WITH APPLICATION

With a competitive bid With a non-competitive bid

Price bid £100 per £100 nominal of Stock

This Stock, when issued, will be an investment falling within Part II of the First Schedule to the Trustee Investments Act 1961. Application has been made to the London Stock Exchange for the Stock to be admitted to the Official List on 26 October 1995.

1. THE GOVERNOR AND COMPANY OF THE BANK OF ENGLAND invite bids for the above Stock.

2. The principal of and interest on the Stock will be a charge on the National Loans Fund, with recourse to the Consolidated Fund of the United Kingdom.

3. The Stock will be repaid at par on 7 December 2015.

4. The Stock will be registered at the Bank of England or at the Bank of Ireland, Belfast, and will be transferable, in multiples of one penny, by instrument in writing, in accordance with the Stock Transfer Act 1982. Stock registered at the Bank of England will also be transferable, in multiples of one penny, by exempt transfer in accordance with the Stock Transfer Act 1982 and the relevant subordinate legislation. Transfers will be free of stamp duty.

5. Interest will be payable half-yearly on 7 June and 7 December. Interest tax will be deducted from payments of more than £2 per annum. Interest warrants will be sent by post. Interest will accrue from Thursday, 26 October 1995 and the first interest payment will be made on 7 December 1995 at the rate of £0.9200 per £100 nominal of Stock.

6. The Stock may be held on the National Savings Stock Register.

7. The Stock and the interest payable thereon will be exempt from all United Kingdom taxation, present or future, so long as it is shown that the Stock is in the beneficial ownership of persons who are neither domiciled nor ordinarily resident in the United Kingdom of Great Britain and Northern Ireland.

8. Further, the interest payable on the Stock will be exempt from United Kingdom income tax, present or future, so long as it is shown that the Stock is in the beneficial ownership of persons who are not ordinarily resident in the United Kingdom of Great Britain and Northern Ireland.

9. For the purposes of the preceding paragraphs, persons are not ordinarily resident in the United Kingdom if they are regarded as not ordinarily resident for the purposes of United Kingdom income tax.

10. Applications for exemption from United Kingdom income tax should be made in such form as may be required by the Commissioners of Inland Revenue. The appropriate forms may be obtained from the Inland Revenue, Financial Intermediaries and Claims Office, Fitz Roy Road, PO Box 46, Nottingham, NG2 1BD.

11. These exemptions will not entitle a person to claim repayment of tax deducted from interest unless the claim to such repayment is made within the time limit provided for such claims under income tax law; under the provisions of the Taxes Management Act 1970, Section 43 (1), no such claim will be outside this time limit if it is made within six years from the date on which the interest is payable. In addition, these exemptions will not apply so as to exclude the interest from any computation for taxation purposes of the profits of any trade or business carried on in the United Kingdom. Moreover, the allowance of the exemptions is subject to the provisions of any law, present or future, of the United Kingdom directed to preventing avoidance of taxation by persons domiciled, resident or ordinarily resident in the United Kingdom, and, in particular, the interest will not be exempt from income tax where, under any such provision, it falls to be treated for the purposes of the Income Tax Acts as income of any person domiciled or ordinarily resident in the United Kingdom.

12. It is intended that, if an official facility for the stripping of gilt-edged securities is introduced, the Stock will be stripable subject to the terms of that facility. On 10 July 1995 the Chancellor of the Exchequer announced that the Government had decided in principle to introduce such a facility and had also decided that any securities made stripable through any such facility would be exempt from withholding tax and from the quarterly accounting arrangements which it is intended to introduce in connection with sale and repurchase agreements for gilt-edged securities. The introduction of an official strip facility will not be before the second half of 1996.

13. Further details of the tax treatment of securities resulting from the stripping of stock of this issue will be determined at or prior to the commencement of an official strip facility. Accordingly, the availability and terms of the exemptions in paragraphs 7 to 11 above in relation to such stripped securities are subject to modification. Information about other proposed changes in the tax regime for gilt-edged securities is contained in the documents referred to in paragraph 27 below.

## Method of Application

14. Bids may be made on either a competitive or a non-competitive basis, as set out below, and must be submitted on the application form published with the prospectus. Each application form must comprise either one competitive bid or one non-competitive bid. Gilt-edged securities may make competitive bids by telephone to the Bank of England not later than 10.00 am on Wednesday, 25 October 1995.

15. Application forms must be sent to the Bank of England, New Isaac, PO Box 444, Gloucester, GL1 1NP to arrive not later than 10.00 AM ON WEDNESDAY, 25 OCTOBER 1995; or lodged by hand at the Central Gilts Office, Bank of England, Bank Buildings, 19 Old Jewry, London EC3R 8JF, not later than 10.00 AM ON WEDNESDAY, 25 OCTOBER 1995; or lodged by hand at any of the Branches or Agencies of the Bank of England not later than 3.30 PM ON TUESDAY, 24 OCTOBER 1995. Bids will not be received between 10.00 am on Wednesday, 25 October 1995 and 10.00 am on Monday, 30 October 1995.

## 16. COMPETITIVE BIDS

(i) Each competitive bid must be for one amount and at one price expressed as a multiple of 1/32nd of £1 and must be for a minimum of £500,000 nominal of Stock and for a multiple of £100,000.

(ii) Unless the applicant is a member of the CCG Service, PAYMENT IN FULL AT THE PRICE BID must be made by a CHAPS payment. Each CHAPS payment must be sent to the Sterling Building Office, Bank of England (Sort Code 100000) for the credit of "New Isaac" (Account Number 58560009) opening the reference "8TY2015", in an invoice not later than 1.30 pm on Thursday, 26 October 1995.

(iii) The Bank of England reserves the right to reject any competitive bid or part of any competitive bid. Competitive bids will be ranked in descending order of price and Stock will be sold to applicants whose competitive bids are at or above the lowest price at which the Bank of England decides that any competitive bid should be accepted (the lowest accepted price). APPLICANTS WHOSE COMPETITIVE BIDS ARE ACCEPTED WILL PURCHASE STOCK AT THE PRICES WHICH THEY BID: competitive bids which are accepted and which are made at prices above the lowest accepted price will be satisfied in full; competitive bids which are accepted and which are made at the lowest accepted price may be satisfied in full or in part only.

## 17. NON-COMPETITIVE BIDS

(i) A non-competitive bid must be for not less than £1,000 nominal and not more than £500,000 nominal of Stock, and must be for a multiple of £1,000 nominal of Stock.

(ii) Only one non-competitive bid may be submitted for the benefit of any one person, and each non-competitive application form may comprise only one

non-competitive bid. Multiple applications or suspected multiple applications are liable to be rejected.

(iii) Unless the applicant is a member of the CCG Service, a separate cheque representing PAYMENT AT THE RATE OF £100 FOR EVERY £100 NOMINAL OF STOCK APPLIED FOR must accompany each non-competitive bid; cheques must be drawn on a bank in, and be payable in, the United Kingdom, the Cheque Clearing Office or the Isle of Man.

(iv) The Bank of England reserves the right to reject any non-competitive bid. Non-competitive bids which are accepted will be accepted in full AT A PRICE (the non-competitive sale price) EQUAL TO THE AVERAGE OF THE PRICES AT WHICH COMPETITIVE BIDS HAVE BEEN ACCEPTED, the average being weighted by reference to the amount accepted at each price and ROUNDED DOWN TO THE NEAREST MULTIPLE OF 1/32ND OF £1.

(v) If the non-competitive sale price is less than £100 per £100 nominal of Stock, the balance of the amount paid will be refunded by cheque despatched by post at the risk of the applicant.

(vi) If the non-competitive sale price is greater than £100 per £100 nominal of Stock, applicants whose non-competitive bids are accepted may be required to make a further payment equal to the non-competitive sale price less £100 for every £100 nominal of Stock allocated to them. An applicant from whom a further payment is required will be notified by letter by the Bank of England of the amount of Stock allocated to him and of the further payment due, but such notification will confer no right on the applicant to transfer the amount of Stock so allocated. The despatch of certificates to applicants from whom a further payment is required will be delayed until such further payment has been made.

18. The Bank of England may sell less than the full amount of the Stock on offer at the auction. Cancellation of a sale of Stock will not affect the non-competitive sale price or any other sale of Stock.

19. The Stock will be, and all previous issues of the Stock have been, initially issued at a price such that it will not be a deep discount security for the purposes of Schedule 4 to the Income and Corporation Taxes Act 1988. Further issues of the Stock may be at a deep discount (broadly, a discount exceeding 1/8th per annum) and in certain circumstances this could result in all of the Stock being treated thereafter as a deep discount security. However, it is the intention of Her Majesty's Treasury that further issues of the Stock will be conducted so as to prevent any such Stock being treated as a deep discount security for United Kingdom tax purposes. Provided the Stock is not a deep discount security, it will be treated as a deep discount security, any discount to the nominal value at which the Stock is issued will not represent taxable income for the purposes of the relevant provisions.

20. The Stock will be issued in registered form and allotment letters will not be issued. Except in the case of Stock held for the account of members of the CCG Service (for whose separate arrangements apply), registration and payment of interest will be in accordance with the instructions given to the application form.

21. Certificates in respect of the Stock (other than amounts held in the CCG Service for the account of members) will be despatched by post at the risk of the applicant, but the despatch of any such certificate, and the refund of any excess amount paid, may at the discretion of the Bank of England be withheld until the applicant's cheque has been paid or CHAPS payment received. In the event of such withholding, the applicant will be notified by letter by the Bank of England of the acceptance of his application and of the amount of Stock allocated to him, subject to each case to the payment of his cheque or receipt of his CHAPS payment, but such notification will confer no right on the applicant to transfer the Stock so allocated.

22. No sale will be made of a less amount than £1,000 nominal of Stock. If an application is satisfied in part only, the excess will be paid, when refunded, by cheque despatched by post at the risk of the applicant; if an application is rejected the amount paid on application will be returned likewise. Non-payment on presentation of a cheque or non-receipt of a CHAPS payment on the due date in respect of any Stock sold will render such Stock liable to forfeiture. Interest at a rate equal to the London Bank Offer Rate for seven days deposit in sterling ("LIBOR") plus 1% per annum may, however, be charged on the amount payable in respect of the relevant Stock.

23. Subject to the provisions governing membership of the CCG Service, a member of that Service may, by completing Section C of the application form, request that any Stock sold to him be credited direct to his account to the CCG on Thursday, 26 October 1995 by means of a member-to-member delivery from an account in the name of the Governor and Company of the Bank of England, Number 2 Account. Failure to accept such delivery by the deadline for member-to-member deliveries under the rules of the CCG Service on 26 October 1995 shall for the purposes of this prospectus constitute default in due payment of the amount payable in respect of the relevant Stock.

24. Until the close of business on 2 November 1995, stock issued in accordance with this prospectus will be known as 8% Treasury Stock 2015 "A". The interest due on 7 December 1995 will be paid separately on holdings of the existing 8% Treasury Stock 2015 and on holdings of "A" stock registered at the close of business on 2 November 1995; consequently, interest mandates, authorities for income tax exemption and other notifications recorded in respect of holdings of existing stock will not be applied in the payment of interest due on 7 December 1995 on holdings of "A" stock.

25. Transfers of 8% Treasury Stock 2015 "A" may be lodged at the Bank of England for registration in that form up to 31 October 1995. After that date, for purposes of certification, the "A" stock will not be distinguished from the existing 8% Treasury Stock 2015. From the opening of business on 3 November 1995, the "A" stock will be amalgamated on the register with the existing stock. CCG account balances will have been amalgamated from the opening of business on 1 November 1995.

26. Application forms and copies of this prospectus may be obtained by post from the Bank of England, New Isaac, Southgate House, Southgate Street, Gloucester, GL1 1NP; at the Central Gilts Office, Bank of England, 1 Bank Buildings, Princes Street, London, EC2R 8JF; or at any of the Branches or Agencies of the Bank of England; at the Bank of Ireland, Donegal House, 7 D'Oyley Square North, Belfast, BT1 1UL; or at any office of the London Stock Exchange.

27. Attention is drawn to the consultative document published by the Inland Revenue on 25 May 1995, which proposes changes to the taxation regime for gilt-edged securities, to the press release issued by the Inland Revenue on 10 July 1995 following the announcement by the Chancellor of the Exchequer that the Government would proceed with reform of the taxation of gilts and bonds, and to the Government Statement referred to in the final paragraph of this prospectus.

## Government Statement

Attention is drawn to the statement issued by Her Majesty's Treasury on 29 May 1995 which explained that, in the interest of the orderly conduct of fiscal policy, neither Her Majesty's Government nor the Bank of England or their respective servants or agents undertake to disclose tax changes decided on but not yet announced, even where they may specifically affect the terms on which, or the conditions under which, this Stock is issued or sold by or on behalf of the Government or the Bank; that on responsibility can therefore be accepted for any omission to make such disclosure; and that such omission shall neither render any transaction liable to be set aside nor give rise to any claim for compensation.

TO THE GOVERNOR AND COMPANY OF THE BANK OF ENGLAND

We apply in accordance with the terms of the prospectus for competitive and non-competitive bids dated 17 October 1995 as follows:

FOR COMPETITIVE BIDS ONLY

(i) For Stock to be purchased at the price bid

Nominal amount of 8% Treasury Stock 2015

£

Amount of Stock applied for

£500,000-£1,000,000 £100,000

£1,000,000 or greater £1,000,000

Price bid per £100 nominal of Stock, being a multiple of 1/32nd of £1:

£

Sum enclosed (a), being the amount required for payment IN FULL AT THE PRICE BID:

£

FOR NON-COMPETITIVE BIDS ONLY

(i) For Stock to be purchased at the non-competitive sale price as defined in the prospectus

Nominal amount of 8% Treasury Stock 2015

£

Sum enclosed (b), being £100 (c) for every £100 NOMINAL of Stock applied for:

£

FOR CCG MEMBERS ONLY

CGO PARTICIPANT NUMBER \_\_\_\_\_ Tel No. \_\_\_\_\_

Name of contact: \_\_\_\_\_

THIS SECTION TO BE COMPLETED BY ALL APPLICANTS

I/We request that Stock sold to me/us be registered in the register mentioned (names) and that any certificate be sent by post at my/our risk to the first-named holder at the address shown below and that interest payments be made in accordance with the instructions given below.

IN THE CASE OF A NON-COMPETITIVE APPLICATION, I/we warrant that to my/our knowledge this is the only non-competitive application made for my/our behalf (or for the benefit of the persons on whose behalf I/we are applying).

IN THE CASE OF AN APPLICATION BY A MEMBER OF THE CCG SERVICE WHO HAS COMPLETED SECTION C, we request that any Stock allocated to us be credited direct to our account at the CCG. We hereby irrevocably undertake to accept such Stock by member-to-member delivery through the CCG Service from the Governor and Company of the Bank of England, Number 2 Account (Participant number 5183) by the deadline for such deliveries on 26 October 1995, and we agree that the consideration to be input in respect of such delivery shall be the amount payable by us on the sale of such Stock in accordance with the terms of the prospectus.

Signature(s) of, or on behalf of, applicant

Date: \_\_\_\_\_

REGISTRATION DETAILS

Stock may be registered in the names of individuals or a corporate body.

CAPITAL LETTERS PLEASE

Title Forename(s) in full Surname

Address

Postcode

Title Forename(s) in full Surname

Address

Postcode

Daytime Telephone Number (in case there is a query)

For Bank of England use

Box No. End. Transaction Number 16/5

889 A

Branch Name New Account No. Cert. Posted Date

NOTE: The Stock will be registered in the Bank of England Register, unless you wish the Stock to be registered on the NATIONAL SAVINGS STOCK REGISTER (NSSR) (for which there is a maximum limit of £25,000 nominal of Stock) or at the Bank of Ireland, Belfast, in which case please tick the appropriate box.

NSR BELFAST

(a) Except in the case of members of the CCG Service who have completed Section C, a CHAPS payment must be sent to the Sterling Building Office, Bank of England (Sort Code 100000) for the credit of "New Isaac" (Account Number 58560009) opening the reference "8TY2015", in an invoice not later than 1.30 pm on Thursday, 26 October 1995.

(b) A separate cheque must accompany each non-competitive application. Cheques should be made payable to the "Bank of England" and crossed "New Isaac" and must be drawn on a bank in, and be payable in, the United Kingdom, Channel Islands or the Isle of Man.

(c) The procedure for any refund, or further amount payable, is set out in the prospectus.

APPLICATION FORMS MUST BE SENT TO THE BANK OF ENGLAND, NEW ISAAC, PO BOX 444, GLOUCESTER, GL1 1NP TO ARRIVE NOT LATER THAN 10.00 AM ON WEDNESDAY, 25 OCTOBER 1995, OR LODGED BY HAND AT THE CENTRAL GILTS OFFICE, BANK OF ENGLAND, 1 BANK BUILDINGS, 19 OLD JEWRY, LONDON NOT LATER THAN 10.00 AM ON WEDNESDAY, 25 OCTOBER 1995, OR LODGED BY HAND AT ANY OF THE BRANCHES OR AGENCIES OF THE BANK OF ENGLAND NOT LATER THAN 3.30 PM ON TUESDAY, 24 OCTOBER 1995.

BANK OF ENGLAND LONDON 17 October 1995

## Farrakhan's speech uplifts and mystifies



Farrakhan digressed into numerology and Egyptology

Great speeches do not have to be long. President Abraham Lincoln's Gettysburg address in 1863 ran to just 271 words. Exactly 100 years later, the Rev Martin Luther King used only 15 minutes for his "I Have a Dream" oration.

The sun was setting behind the Washington Monument on Monday evening when Mr Louis Farrakhan, head of the Nation of Islam, finally finished addressing the Million Man March of black men, 400,000 of them according to the official police count, three times that according to the organisers. He had spoken for the best part of 2½ hours.

It would be churlish to deny that his speech had fine passages. But it also cannot be denied that its many obscure digressions into slavery, numerology, Egyptology, Masonic lore and the teachings of the Bible, Talmud and Koran well sprinkled with attacks on historical and contemporary white politicians mostly mystified a crowd which began to drift away before he had finished.

Those that did remain also heard an interesting conclusion. Mr Farrakhan issued something between a takeover bid and a demand for a seat at the table of all the deliberations of the leading black and civil rights organisations, many of whose leaders have abandoned him.

His claim, as the man who had put together such an impressive and peaceful demonstration, was that the message - black self-empowerment - and the messenger - himself - were inseparable. With the Rev Jesse Jackson relegated to a supporting role it was easy to see why Mr Farrakhan could stake such a claim.

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## THE BARINGS REPORT

Report says 'timely action' could have averted Barings' collapse, write John Gapper and Nicholas Denton

## Singapore suggests cover-ups from the top

Singapore's inquiry into the collapse of Barings, the merchant banking group, goes considerably beyond the Bank of England's inquiry in July. It says not only that Barings executives should have stopped Mr Nick Leeson's fraudulent trading, but suggests that it was deliberately covered up.

It accuses Mr Peter Norris, head of investment banking, and Mr James Bax, regional manager for south Asia, of playing down the significance of a \$50m accounting discrepancy which turned out to be part of Mr Leeson's losses, and says the two men tried to discourage investigations of the discrepancy.

The report suggests a "plausible motive" for Mr Norris's action was that Mr Christopher Heath, the former chairman of Barings Securities, had left the firm in 1993 when it incurred losses. Mr Norris "clearly had an interest in concealing the much larger losses" amassed by Mr Leeson.

Although the report admits "the question of motive remains conjectural", it suggests that Mr Norris and Mr Bax's actions prevented the bank from discovering the losses held by Mr Leeson in error account 88888. It says that "timely action" could have prevented the collapse last February.

The report was written by Mr Michael Lim and Mr Nicky Tan, partners of Price Waterhouse Singapore, following an inquiry under Section 231 of the Companies Act. The inspectors had better access to records of Barings Futures (Singapore) - Mr Leeson's trading unit - than the Bank of England.

The Singapore inspectors' criticisms of Barings' senior management divides the two phases. The first was the period between July 3 1992 - when Mr Leeson opened the 88888 account - and the end of 1994. The second phase was to January and February this year, just before the collapse.

● 1992-1994: The inspectors say Barings failed to discover the 88888 account, and Mr Leeson's secret trading because of very poor reconciliation procedures. It also funded margin calls on hidden trading with

out making any real checks on why these funds were being requested by Mr Leeson.

The inspectors say Barings' claim that it was unaware of account 88888 implied that key individuals of its management were "grossly negligent, or wilfully blind and reckless to the truth". They say the manner in which a "matrix management" structure was implemented within Barings led to incomplete control of Mr Leeson.

They point out that the financial controls department headed by Mr Geoffrey Broadhurst, group finance director, took a limited view of its own role. The department "never properly tracked the cost of funding" of Mr Leeson's trading, and did not complete an attempt to do so during 1994.

Although the margin payments on Mr Leeson's futures trades in account 88888 were registered by Barings Securities

east Asia, questioning some problems with margin payments on account 88888.

Although London executives say they were not told of this letter - which clearly referred to account 88888 - a reply was sent by Mr Jones. However, Mr Jones told the inspectors that he had "no real knowledge" of the contents of the letter, which was drafted for him by Mr Leeson.

This letter was followed by another on January 25 which questioned Barings Futures on its capital resources to meet potential losses and margin calls. The reply sent by Barings Futures, but drafted by Mr Tony Hawes, group treasurer, said the whole assets of Barings stood behind the unit.

The second warning was the discovery by Coopers & Lybrand Singapore of a \$50m discrepancy in Barings Futures' accounts. This sum was in fact

circumstances in which Barings Futures had supposedly paid such a large sum.

They say Mr Norris also "took steps to conceal this matter from the other Barings directors, and to discourage Coopers & Lybrand in both Singapore and London from including the matter in their audit management letters". The Bank of England said only that a request was made to Coopers in Singapore.

The inspectors say Mr Norris instructed Mr Broadhurst not to inform Barings' Asset & Liability Committee (ALCO) in London which oversaw trading risks, about the discrepancy. When it was discussed by the committee on February 8, he said it was an operational error and asked for the discussion not to be minuted in detail.

"In concealing the problem, Mr Norris was assisted by Mr Bax, who tried to divert investigations by the external auditors and Mr [Tony] Hawes, the group treasurer," they say, alleging that Mr Bax encouraged Mr Leeson to present the external auditors with authorisation of the trade.

This comprised a letter allegedly signed by Mr Ron Baker, head of the derivatives group in which Mr Leeson worked, authorising the transaction. They say that Mr Bax urged Mr Leeson to show Coopers this letter although he knew the contents to be false, because the transaction had been unauthorised.

"Both Mr Norris and Mr Bax have denied being involved in any plan either to underplay the significance of the discrepancy or to discourage independent investigations into the matter. However, we are unable to accept their denials," the inspectors say in the report's summary.

The inspectors also highlight a meeting between Mr Norris and Mr Leeson in Singapore on February 16. Mr Norris said the meeting had been short, lasting three to five minutes, but there is testimony from four eye-witnesses that Mr Leeson spent 90 minutes in a room with Mr Norris.

They say that Mr Norris had assumed leadership of Barings Securities when Mr Heath departed after losses, and he

## What the inspectors say

"In retrospect, it seems probable that until February 1995 the Barings Group could have averted collapse by timely action. By the end of January 1995, although substantial losses had been incurred, these were only one quarter the eventual losses..."

Singapore Inspectors' Report

## The bank could have been saved if.....

- Problems with Leeson's funding requests had been "thoroughly and promptly" investigated
- Efforts had been made to "overcome the inability" of management to understand complex aspects of Leeson's trading
- Worries over Leeson's command of both the front and back offices in Singapore had been tackled
- Reforms designed to help track major cash flows had been implemented in late 1994
- Barings' high-level Asset & Liability Committee had taken Leeson "to task for increasing his positions" - when they had told him several times to reduce them
- A full investigation had been made in January 1995 of the so-called "SLK receivable" - a document relating to a \$50m transaction which was in fact a forgery
- The Asset & Liability Committee had "understood and effectively addressed" warnings from Simex, the Singapore Futures Exchange
- Leeson's reasons for requesting very large amounts of funds in January and February 1995 had been "analysed and understood"

"clearly had an interest in concealing the much larger losses that the Barings group had incurred via account 88888 in the course of the three years that Mr Leeson had been in Singapore."

The inspectors also question Mr Norris's behaviour on the night of February 23 when Mr Leeson left Singapore. They say it is "surprising" he was one of the first to conclude that there had been unauthor-

ised trading, when he did not have detailed knowledge of Barings Futures operations.

According to the inspectors, when Mr Bax received Mr Leeson's resignation fax on February 21, he spoke to Mr Norris and they decided that Mr Bax should fly to Kuala Lumpur to locate Mr Leeson. The inspectors describe this as a "remarkably optimistic venture" which bore no fruit.

The conclusion of the report



Peter Norris, chief executive, investment banking



James Bax, south-east Asia regional manager



Nick Leeson, general manager, Barings Futures (Singapore)

## Head was seen by some as a 'control freak'

Mr Peter Norris, former head of investment banking at Barings whose conduct is severely criticised in the report, was the man chosen to carry out the delicate task of merging merchant banking and securities operations at Barings.

Mr Norris, 40, was given the task by Mr Peter Baring, the bank's former chairman, and Mr Andrew Tucker, its deputy chairman, after the ousting of Mr Christopher Heath, the former head of Barings Securities in 1993.

He had come to Barings as a graduate trainee in 1976 after leaving Oxford University. He was singled out early in his career for his intelligence and grasp of detail, working to corporate finance and starting bond underwriting.

In 1984, he left to join Goldman Sachs in London when the US investment bank was making a push into the European market. He returned to Barings in 1987, and worked in Hong Kong as a corporate financier before moving to London in 1992.

Mr Norris was assigned to set up a new equity capital markets group, which was supposed to bridge the gap between Barings Brothers, the merchant bank, and Barings Securities, the firm founded by Mr Heath.

However, Barings Securities had started to lose its way after a highly profitable period in the late 1980s when it had traded Japanese equity warrants. The profits had helped to make Mr Heath Britain's highest paid businessman.

Mr Norris was put in charge of a recovery plan for Barings Securities which involved cutting operations in Europe and Australia, and reducing costs. He became chief operating officer of Barings Securities under Mr Heath.

But Mr Heath and Mr Andrew Baylis, one of Barings Securities managing directors, disliked the new strategy and believed the firm should continue expanding.

They were ousted in spring 1993 and Mr Norris became chief executive.

Mr Norris imposed a new management structure, revamping back office controls. He faced resistance in Singapore from Mr Simon Jones, the chief administrative officer, who was fiercely protective of his autonomy.

Although Mr Norris was seen as an effective manager who had brought some order to Barings Securities, some executives found him arrogant. Some also regarded him as a "control freak" who was unwilling to delegate.

At first, he took direct charge of the equity derivatives operation within which Mr Nick Leeson worked. However, Mr Norris later handed over responsibility for this activity to Mr Ron Baker, who headed a debt trading operation.

By late 1993, Barings had decided to create an integrated investment bank combining Barings Brothers and Barings Securities. Mr Norris was promoted to chief executive-designate of the combined operation. J.G.

## The inspectors contend that Mr Norris and Mr Bax attempted to discourage investigations

as "loans to clients", the inspectors point out that no steps were taken to verify the identities and creditworthiness of these "clients", who did not in fact exist.

They say that during 1993, Barings Securities knew that between \$15m and \$20m of funds remitted for margin payments could not be reconciled; in 1994, the unreconciled sum grew to \$100m; and in the first two months of 1995 the sum rose to about \$230m without a satisfactory explanation.

They also say evidence of Mr Leeson's margin trading was detailed in full on a "margin feed", a one-page document. If this had been used by settlements staff, they could easily have resolved the unreconciled balance, but no reconciliation controls existed.

● January/February 1995: There were two key warning signals in January. One was a letter written on January 11 by Simex, the futures exchange, to Mr Simon Jones, the operations manager for south-

an accumulated loss which Mr Leeson had built up in account 88888 by the end of 1994, and had tried to conceal in at the year-end accounts.

The inspectors contend that Mr Norris and Mr Bax mounted an attempt to discourage investigations after being informed of this problem. Mr Leeson first told Mr Jones that the amount had arisen from a transaction between a US investment fund Spear, Leeds & Kellogg and Banque Nationale de Paris.

They say "within the next few days, at least two different versions of how the receivable had arisen circulated among Barings management". Yet the inspectors say executives "now claim that it never occurred to them that such explanations could have been fabricated or untrue".

Subsequently, the inspectors say that Mr Norris "downplayed the significance of the matter and discouraged all independent investigations into the transaction, and the

## ACCOUNT 88888 - THE CONCEALED LOSSES

## Leeson hid trading from the outset

Mr Nick Leeson opened 88888, the account in which he hid his unauthorised trading, just two days after Barings began trading on Simex at the start of July 1992.

That is one of several findings of the Singapore inspectors' report which demonstrate that Mr Leeson was concealing his activities and losses from the very start of his derivatives trading in Singapore.

The Singapore inspectors, who have had access to Simex data not made available to the Bank of England, show that Mr Leeson's secret futures and options positions grew slowly at first.

After losing \$810.7m (\$4.8m) between July and October 1992, Mr Leeson brought the balance on the hidden 88888 account back close to zero in July 1993. This tallies with his own account, given in a television interview, of the relief he felt when he made back his losses in mid-1993.

But it appears that the main method by which Mr Leeson recovered his losses, initially made on futures positions, was by selling options in a way which stored up trouble. When the mar-

ket moved against him and his futures lost money, he tended to write "straddles", a combination of options.

These produced an immediate premium which reduced the deficit in the 88888 account. But the options, on the Nikkei index of Japanese stocks, exposed Mr Leeson to a movement in the market in either direction.

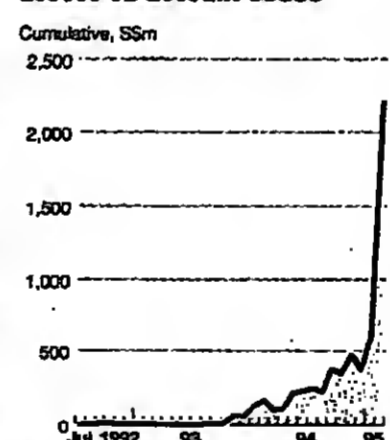
They produced an initial profit, with a counterbalancing risk of loss on expiry of the options contracts. It was a highly risky form of borrowing.

From the timing of Mr Leeson's trading, it appears that the sale of these "straddles" was an attempt to plug the hole left by punts on the market which had gone awry.

For example, in November 1993, Mr Leeson's futures losses had mounted to \$84.2bn from \$87.8bn the previous month. This coincided with Mr Leeson's most intense bout of options trading, which lifted the value of the options portfolio to a surplus of \$47.8m the following month.

Mr Leeson had good fortune in his options strategy in the second half of 1994. The straddles remain profitable if

## Losses on account 88888



Source: Inspectors' report

the market stays within a narrow band and the Nikkei index was uncommonly stable.

At the end of 1994, the options showed a total profit of \$817.85bn according to the inspectors' report.

But their value collapsed after the Kobe earthquake, which triggered a sharp increase in the volatility of the Japanese stock market. In any case, Mr Leeson's profits on options in 1994 were not sufficient to offset his other losses.

The inspectors' report produces evidence that Mr Leeson gained personally from his unauthorised trading activities. He has always claimed that he acted in the interests of Barings.

However it makes a tantalising reference to a friend of Mr Leeson who profited from the Barings traders' misbooking of transactions. Between June and November 1994, Mr Leeson adjusted the prices of trades which he entered into with FCT, a US broker. FCT enjoyed a net gain of \$870,000, according to the inspectors.

Mr Daniel Argyropoulos, the FCT trader involved, was a close friend of Mr Leeson. The Singapore inspectors write: "In fact, Mr Argyropoulos drove Mr Leeson to the airport when he fled on February 23. Mr Leeson also contacted Mr Argyropoulos several times after he absconded, before he was arrested in Frankfurt." N.D.

## SINGAPORE INTERNATIONAL MONETARY EXCHANGE

## Simex erred in 'relying on the integrity' of the bank

The Singapore International Monetary Exchange, on which Mr Nick Leeson traded, emerges only lightly scathed by the inspectors' report into the Barings collapse. The merchant bank - rather than the exchange or the Singapore authorities - bears the brunt of criticism.

Simex had concerns about Barings' activities which it expressed in two letters sent to the bank in January. The investigation finds that Simex did not follow them up with "urgency" and concludes that it should have promptly conducted a full and thorough audit of Barings Futures, the Singapore derivatives subsidiary.

Nor did Simex inform the Monetary Authority of Singapore, the central bank and main financial regulator, of its worries. Moreover, it may have been "overly liberal" in granting increases in position limits to Barings.

However, it notes that Simex did not have responsibility for managing the affairs of Barings

Futures or any of its clearing members. If Simex erred, it was in "relying on the integrity of supposedly venerable financial institutions".

Simex responded by saying that it was increasing efforts to identify "high risk" accounts and analysing settlements and margin calls more thoroughly, increasingly on a daily basis. Simex has maintained the Barings collapse has not damaged Singapore's growing reputation as a financial centre. Trading volumes have risen since the UK merchant bank crashed in February. No executives have resigned to take responsibility for lapses by the exchange.

The exchange echoed the inspectors in putting the blame on Barings management. "The Barings case, as well as the recent Daiwa episode, have demonstrated that external controls alone are not sufficient to prevent loss by the organisation," Simex said. The key defence for Simex lies in the inspectors' judgment that senior members of Bar-

ings management made concerted efforts to conceal the true nature of Mr Leeson's activities.

The allegation of a cover-up by Barings executives is being studied by the Commercial Affairs Department of Singapore, the authority which handles economic crime. The Finance Ministry, which commissioned the inspectors' report, said the CAD was conducting its own investigations into the affairs of Barings Futures.

Further prosecutions, apart from that of Mr Leeson, are unlikely. But the finance ministry said the CAD would investigate possible criminal acts by persons in Singapore.

The executive most strongly criticised by the inspectors, Mr Peter Norris, former chief executive of Barings investment bank, is in the UK. Another accused of involvement in a cover-up, Mr James Bax, Barings' former head for south-east Asia, is thought to be seeking permission to leave Singapore. N.D.

## CALL FOR THE EXPRESSION OF INTEREST

## IN PURCHASING THE ASSETS OF

## "ROKA INDUSTRIAL ENTERPRISES S.A."

## OF ATHENS GREECE

ETHNIKI KEPHALAIOU S.A., Administration of Assets and Liabilities, of 9A Chrysoskolitissis St. Athens, Greece, in its capacity as Liquidator of "ROKA INDUSTRIAL ENTERPRISES S.A.", a company with its registered office in Athens, Greece, (the "Company"), presently under special liquidation according to the provisions of Article 46a of Law 1892/1990, by virtue of decision 4482/1994 invites interested parties to submit (within 20 days from the publication of this Call, non-binding written expressions of interest for the purchase of the assets mentioned below, which are being sold as a single entity.

## BRIEF INFORMATION

The Company was established in 1973 and was in operation until 1993, when it became bankrupt. On 30.9.94 it was placed under "special liquidation" according to the provisions of article 46a of L. 1892/1990. Its objectives included the manufacturing of cotton yarns, knitted fabrics and bed covers.

## ASSETS OFFERED FOR SALE

a) A cotton spinning and weaving mill, dyeing and finishing units, cutting-sewing (confection) units. The whole complex consisting of several buildings, the total surface of which amounts to approximately 16,000 sq.m., standing on a plot of about 52,914.12 sq.m., according to the ownership titles and 53,893.54 sq.m., according to the relevant topographic plan, containing machinery, mechanical equipment, etc. The Company's trade name is also on offer.

The Company is located at "Grekia" at the 6th km of the National Larissa-Thessaloniki Road, in the region of Koulouri. On 23.12.98 the factory was leased to "INCO GMBH IMPORT-EXPORT", a limited liability company based in Krefeld (234) Ostwall St. 4150 Krefeld for a period of nine years. Legal action has been taken with a view to ending the lease. A relevant court decision is pending.

b) A plot of land, adjoining the factory plot, at the 6th km of the National Larissa-Thessaloniki Road, in the region of Koulouri.

## SALE PROCEDURE

The Company's assets will be sold by way of Public Auction in accordance with the provisions of Article 46a of Law 1892/1990 as supplemented by art. 14 of L.300A/1991 and subsequently amended and the terms set out in the Call for Tenders for the sale of the above assets, to be published in the Greek and foreign press on the dates stipulated by Law. (This is the third auction to take place).

## SUBMISSION OF EXPRESSIONS OF INTEREST - OFFERING MEMORANDUM

For the submission of Expressions of Interest as well as in order to obtain a copy of the Offering Memorandum, please contact the Liquidator, "ETHNIKI KEPHALAIOU S.A. Administration of Assets and Liabilities, 9A Chrysoskolitissis St. Athens 105 61, GREECE. Tel. +30-1-523.14.84-87 fax: +30-1-321.79.05 (attention Mrs. Mariika Fongakisti).

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# Shift signalled in British stance on IRA arms

By John Kampfner,  
Westminster Correspondent

The British government signalled yesterday that it may be prepared to drop its insistence that the IRA make an initial gesture on handing in its military arsenal before Sinn Féin is allowed to enter all-party negotiations.

The concession was hinted at by Sir Patrick Mayhew, Northern Ireland secretary after talks in Belfast with Mr Dick Spring, the Irish foreign minister. The meeting was the latest in a flurry involving the UK, Irish and US governments. Sir Patrick flew immediately to London to confer with Mr Anthony Lake, President Bill Clinton's national security adviser.

There are increasing signs that London and Dublin are narrowing their differences over the next phase, with pressure growing on Sinn Féin, the IRA's political wing, to co-operate with an international commission on paramilitary arms.

Sir Patrick said that he and Mr Spring agreed on the twin-track approach, which would combine the establishment of the commission alongside announcement of a new round of talks involving the province's political parties.

Sinn Féin had made clear it would not work with any commission against a backdrop of an insistence by the UK of unilateral "surrender" - its interpretation of any gesture on decommissioning arms. This refusal led to the postponement of an Anglo-Irish summit six weeks ago and appeared to deal a significant setback to the peace process.

Although the British and Americans deny any time pressure, Mr Clinton's visit to the UK and both parts of Ireland at the end of next month is forcing the pace.

Sir Patrick stressed that all-party talks could not begin unless there was

a commitment to resolving all differences by purely political means. Referring to Sinn Féin, he said there needed to be "confidence that the shadow of the gun or the bomber will not fall across the table by reason of any particular party having access to arms maintained by an organisation with which it is inextricably linked". Decommissioning was the only way of achieving the necessary confidence.

But in a subtle although discernible shift, he added: "It is theoretically possible that the commission might find some other means by which the necessary confidence can be guaranteed. If that was the case, and we

can't see it at the moment, we would want to look at it very closely."

Downing Street said the three conditions laid down by Sir Patrick for Sinn Féin's entry into talks - agreement on the principle of decommissioning, on the way it is carried out, and an initial "confidence-building" gesture - remained.

Mr Lake, who the British see as one of its most reliable partners in Washington, said after meeting Mr Malcolm Rifkind, the UK foreign secretary: "We did not bring proposals. We are trying to be helpful. I think we are being helpful in trying to talk to all of the parties."

## UK NEWS DIGEST

### Safety warning over nuclear power sell-off

The British government's planned £2bn (\$3.16bn) privatisation of the nuclear electricity industry could pose safety risks, Mr Richard Killick, who was Scottish Nuclear's director of safety and quality until six weeks ago, warned yesterday.

Mr Killick said he was concerned about the safety implications of the industry's new management structure. Its plans to increase profit-related remuneration and low staff morale.

He said the company's complicated management structure concentrated too much power in the hands of the company's chief executives when safety was best served by spreading the responsibility.

It has placed too much power in the hands of Mr Robin Jeffrey, chairman and chief executive of its Scottish Nuclear subsidiary, and Mr Robert Hawley, who holds the same posts at the Nuclear Electric arm.

"The main principle of safety in the nuclear industry is that not too much responsibility should be in one pair of hands", Mr Killick said.

Privatisation would "significantly reduce safety and in the longer term could have extremely severe implications", he said. He doubted there would be problems in the first two or three years after privatisation but believed the "latent instability" being built into the system could cause problems in the long term.

Mr Killick is in the course of making a submission to the Commons' trade and industry select committee, which later this month will begin an inquiry into the government's plan to sell British Energy, a new company formed by the merger of most of Scottish Nuclear and Nuclear Electric.

In response, Mr Tim Eggar, the energy minister, said the government would "not do anything to imperil safety". The Nuclear Installations Inspectorate, the industry watchdog "is there to protect standards and we will not do anything to undermine their role."

Robert Peston, Political Editor

## Row grows over sacked head of prison service

By Raymond Snoddy  
and Kevin Brown

Mr Derek Lewis, the sacked director general of Britain's Prison Service, is considering taking legal action against Mr Michael Howard, the home secretary, for breach of contract.

Mr Lewis, who spent much of yesterday in broadcasting studios defending his record in charge of the prisons agency and accusing the Home Office of repeated interventions in operational matters, has a contract that runs until September 1996 and if he seeks a High Court writ it would be with the support of the First Division Association, the top civil servants' organisation of which he is a member.

It is clear that Mr Lewis, who was sacked on Monday just before publication of the highly critical report on the management of the Prison Service by General Sir John Latham, intends to continue his public media campaign and that Mr Howard is the target.

The home secretary came under growing pressure from MPs yesterday amid allegations about his evidence to the cross-party Commons Home Affairs committee on January 25, 15 days after he told MPs that Mr John Marriott had been removed as governor of Parkhurst.

Mr Howard told the committee that he had not spoken to Mr Lewis about the position of Mr John Marriott, the Governor of Parkhurst Prison, following prisoner escapes and insisted that the decision to move him was an operational decision taken by Mr Lewis.

Mr John Major made clear he was determined to stand by Mr Howard, insisting that "whatever action Mr Howard took was entirely proper and within his remit as home secretary."

Labour intends tomorrow to hold a debate on prisons.

In a statement yesterday Mr Howard said it was Mr Lewis who suggested moving Mr Marriott from Parkhurst at the meeting on January 10. "The home secretary did not tell Mr Lewis that the governor of Parkhurst should be suspended immediately. The home secretary did not threaten to instruct Mr Lewis to suspend the governor of Parkhurst," the statement said.

Earlier yesterday, Judge Stephen Tumin, the chief inspector of prisons, challenged Mr Howard's argument that he was in charge of policy and Mr Lewis was in charge of operational matters. "If you are dividing policy and operations, it means the home secretary is not responsible for anything at all," he said on the Radio 4 Today programme.

## US company in Welsh expansion as UK car sales show rise

### Ford in \$500m engine investment

By Roland Adaburham  
in Bridgend, Wales

Ford of the US confirmed yesterday that it will invest £340m (\$537m) and create 480 jobs in building a new engine at its Bridgend plant in Mid Glamorgan. The company will receive £10m of regional aid from the Welsh Office.

The project, to make the Zetec SE small-car engine, will safeguard the jobs of the existing 1,300 workforce. Several hundred more jobs are likely to be created among component and other suppliers.

Bridgend's capacity will be doubled to more than 1m engines a year and at least 80 per cent of the output is expected to be exported. Production will start in 1998.

The investment was won for Bridgend in spite of competition from other Ford plants, especially at Valencia in Spain, and from greenfield sites around the world. Mr Alex Trotman, Ford's chairman and chief executive, described the decision as a "close-run thing".

The regional aid will be paid subject to investment and employment criteria being met. Work at Bridgend came to a temporary halt for the announcement. Mr Trotman told the assembled staff: "You won because of our increasing confidence in Bridgend and our British plants. Our British operations in general have

been making tremendous progress in the past 10 years and will have a very strong future if they continue to drive to be the best."

Mr Trotman said Britain was already the largest centre for Ford engine production in Europe "and of course with this announcement it will become much bigger".

Plants such as Bridgend, he said, "will have an increasingly important part to play as a global competitor".

The all-aluminium Zetec SE engine, described as of "the very finest technology in refinement and efficiency", will be fitted in the new Fiesta car, on sale next month.

This is Ford's second big UK investment in engine production this year. In April, it said it was investing £200m at its Dagenham plant in a new diesel engine.

Mr Ian McAllister, chairman of Ford Britain, said: "Bridgend is a good example of a plant where management, unions and employees work together as a team. As a result, Bridgend offers an increasingly competitive cost base, reliability of supply, excellent production quality and a willingness by the workforce and unions to adopt efficient working practices."

About 150 automotive companies have sites in Wales, employing more than 20,000 people.

## Downward sales trend reversed

By John Griffiths,  
Motor Industry Correspondent

UK carmakers and importers are preparing for tomorrow's opening of the London motor show at Earls Court buoyed up by statistics showing a sharp upward lift in sales during the first part of October.

Informal industry figures show that registrations of new cars so far this October are running 15 per cent higher than in the same period last year.

This is in contrast to a gloomy September, when registrations fell by 3.4 per cent on a year-on-year basis, prompting a call by the Retail Motor Industry for government action to reverse what it described as a "worrying" downward trend in the new car market. September's performance

left total registrations for the first three-quarters of the year just 0.37 per cent higher than in the same period a year ago, at 1.59m.

Most of this month's demand has been coming from the fleet sector, with private buyers accounting for only around 45 per cent of the market. As a result the recent upturn did nothing to prevent the RMI yesterday issuing a renewed call for consumer confidence-boosting measures from the Government.

Nevertheless, carmakers and dealers are becoming cautiously hopeful that strong hints by Mr Kenneth Clarke, the chancellor, at the Tory party conference of tax cuts both in next month's Budget and in subsequent years will act as a stimulus for sales to private motorists in the coming months.

The absence of the so-called "feelgood factor" among private consumers is proclaimed by the motor industry to be primarily responsible for the expected failure of the new car market to reach the industry's hoped-for 2m cars barrier this year.

Government statistics due out tomorrow, the first public day of the motor show, are also expected to show that car production in the UK is continuing to run ahead of year-ago levels, despite a smaller than expected new car market in the UK in August and relatively weak markets in continental Europe.

Motor show organisers are expecting this year's event to be one of the best attended London shows on record, with some 40 cars making their UK show debut.

## Tyvek\*, Typar\*, Sontara\*: Life wouldn't be as comfortable, convenient or healthy without them

Non-wovens from DuPont are several families of "fabrics" that are made of randomly-laid fibres. These structures may be of man-made or natural materials, and can display a variety of characteristics, such as immense strength, water resistance, barrier properties and vapour permeability, absorption, chemical resistance and dimensional stability.

TYVEK roof lining is truly revolutionizing new home construction. By keeping out the weather while at the same time allowing moisture to escape, this thin, strong sheet material enables the under-roof space - traditionally left empty - to become usable living space.

Not only do home owners get more living area for their money, they save significantly by reducing energy loss. And because the cause of condensation damage is much reduced, expensive and possibly toxic wood treatment is not needed either.

### Denying bacteria a foothold

One field that has benefited especially from DuPont Nonwovens is the prevention of infection. For example, in most operating theatres you'll find the OR staff wearing disposable sterile gowns, and patients protected by drapes made of non-linting DuPont SONTARA, a process whereby fibres are "hydroentangled" without the use of binders to form a strong yet soft material.

TYVEK, too, has important applications in the medical field. Its properties of high strength and gas

permeability make it ideal for sterile packaging. A surgical instrument, for instance, is placed in a tray, sealed with a peelable lid of TYVEK, and then gas-sterilized. Because the molecule-sized holes in the TYVEK are too small for bacteria to enter, the contents remain completely aseptic until they are needed.

### Beneath your feet or under your wheels

Another versatile non-woven from DuPont is TYPAR, a highly stable polypropylene sheet with exceptional strength and filtration properties which are exploited by architects, landscapers and road



Car covers of TYVEK protect against sun, snow and sand without trapping corrosive moisture.

builders. As you drive down a new stretch of highway, buried deep below the road surface is a sheet of TYPAR that's helping stabilize the roadbed by separating different layers of material and draining away

excess water, or controlling unwanted plant growth.

TYPAR's stability is also put to use in another unseen application: your carpet. As a backing for fashionable,



The French Post Office and Federal Express entrust their customers' valuables to tough, lightweight envelopes of TYVEK.

high quality tufted carpets, it is easier to work with than woven materials, and resists pattern distortion better.

In another new underfoot (literally) application SONTARA is increasingly being used in sport shoe linings - it is soft and comfortable and, importantly, its strong "wicking" properties carry away excess moisture from the foot before it can cause chafing or blisters.

### Protection for people in hazardous conditions

Chemical processing, crop and paint spraying, asbestos removal, toxic cleanups - jobs that are



Fighting back at Old Man Winter: Roof linings of TYVEK "breatheable" microfibers shed out the elements and increase usable space, while ZEMDRAIN® linings for poured concrete forms help create a hard, dense surface that resists weather damage longer.

hazardous to the health are all too many, and to do them effectively the workers must be both protected and relatively unrestricted. The barrier properties, chemical resistance, strength and lightness of TYVEK work together to make TYVEK-PRO TECH® limited-use apparel the ideal specific protective clothing in dangerous situations. After use they can either be incinerated (when TYVEK burns it is converted into energy and water) or, when free of hazardous contamination, it can be easily recycled.



Operating theatre staff all over the world help control bacterial infection with disposable sterile gowns and drapes made of DuPont SONTARA.

### Fold and unfold this map a thousand times

Imagine... sea charts and fishing guides that won't get soaked, luggage tags and ski passes that won't rip, signs that won't shred, bags that won't burst, envelopes that stay intact and road maps that'll outlast your car. The strength, water resistance, lightness and sheer printability of TYVEK make it ideal for demanding graphic applications.

### Innovations from DuPont

TYVEK, TYPAR, SONTARA and ZEMDRAIN are developed and produced by DuPont Nonwovens, and contribute to the comfort, safety and convenience of our daily lives. They serve diverse markets in packaging, construction, medical and safety apparel, reinforcing

backing and absorbents. DuPont is one of the world's leading industrial companies, with 40 production and development facilities in Europe alone, and over \$1.3 billion spent annually by its R&D and customer service laboratories worldwide.

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Part of our lives

## BUSINESS AND THE ENVIRONMENT

## Cleaner fuel in Chicago

Visitors to Chicago should not be surprised if they notice a pronounced aroma of fried food emanating from the city's police cars.

Chicago cops are not hitting the snack bars any more than usual. The smell is coming from the police cars' engines, which have begun to switch over to vegetable oil instead of diesel.

With its Clean Cities Programme, launched last year, Chicago is aiming to become an urban laboratory for alternative fuel sources. The city's environmental inspectors now drive to appointments in vans run on propane and ethanol. Rubbish collectors drive vehicles fuelled by compressed natural gas. And public utilities workers meander the city in electric vans.

Chicago now plans to become the first city in the world to use zero-emission buses in its transit system. Three public buses will be equipped with hydrogen fuel cell engines next year, provided by the Canadian group Ballard for \$8m (\$5m). "The hydrogen engines are the next step up, because they are zero-emission, not just low emissions," says Deborah Boldt, co-ordinator of the Clean Cities Programme.

Chicago plans to convert about 69,000 vehicles, both public and private, to low-emission fuel over the next four years. Large corporations such as UPS, as well as local delivery groups, have promised to begin changing their fleets as soon as the city provides them with results from the experiments.

Chicago says the tests are going well, with reductions of at least 75 per cent in carbon monoxide, sulphur and particle emissions in alternative fuel vehicles. Despite the city's extreme temperatures and poor road conditions, no operating problems have been reported.

The big challenge, says Boldt, is cost. "These vehicles all work well but they are expensive to convert and run. That is why we need to do these experiments, to get a more accurate idea of price and efficiency."

Victoria Griffith

"All the warning lights suddenly flashed red. Then we felt two big shocks," recalls Oleg Pahenychnykov, an engineer in the safety control room at Chernobyl in the early morning of April 26 1986. "We could all see the flames engulfing the fourth reactor in the night."

A repeat performance at Chernobyl is a recurring nightmare in Europe's capitals. To allay these fears requires a financial and environmental effort on a massive scale, which could serve as a model for other old and unsafe nuclear reactors across the former Soviet bloc. Plans that will decide Chernobyl's future are likely to take shape over the coming weeks in talks between Ukraine and western countries.

Ukraine initially rejected western overtures to close the plant, where two of four reactors are currently operating. In April, President Leonid Kuchma promised to close Chernobyl by 2000. But he demanded that the Group of Seven and the European Union pay for an alternative electricity source and save Chernobyl workers' jobs. Ukraine initially put the cost at \$4bn (\$2.5bn).

On paper, the two sides are far apart. The G7 and the EU last year proposed barely \$1bn in loans and grants. At the G7 summit in Halifax in June, the G7 countries welcomed Kuchma's promise and pledged to "assist the closure of Chernobyl". Western officials concede a compromise must be found.

As symbolised by a stained glass window at the plant gate depicting Prometheus giving fire to the world, Chernobyl makes what Ukraine desperately needs: about 5 to 7 per cent of all its electricity, amid a lingering energy and economic crisis largely caused by the disruption of trade with Russia, its main oil and gas supplier. Since the Soviet Union's collapse, Ukraine has run up more than \$4bn in energy debts to Russia.

Fears over unemployment are also likely to remain central in the talks about Chernobyl's future. The dominant view among Chernobyl's 6,000 workers is that the power plant should remain open. No large factory in Ukraine has been forced into bankruptcy, and it is unlikely that the government, working within tight political constraints, will start with Chernobyl.

Ukraine's nuclear establishment has gone on the defensive. Serhiy Parashin, the Chernobyl director, claims \$300m in safety work "has brought results" and angrily brushes aside suggestions that Ukraine, devastated by the first accident, might also benefit from its closure. "Ukraine doesn't have a problem with Chernobyl," he says. "You can't get a better station."

The country's Atomic Energy Commission in July called Chernobyl "the best and most reliable" of



Engineers inspect a control panel in Chernobyl's operating hall. They believe the plant should stay open despite safety concerns

## Chernobyl's uncertain future

The west wants to decommission the nuclear plant but Ukraine is reluctant to do so, says Matthew Kaminski

the country's five nuclear plants. It urged Kuchma to go ahead with plans to overhaul the station and keep it in operation for another 10 years. The second reactor was damaged by fire in 1991.

But Ukrainian safety claims are disingenuous. Among Ukraine's five stations, only Chernobyl uses the older RBMK reactors, developed in the 1970s. Chernobyl engineers admit the reactors are significantly less safe than the later VVER model. Scientists from the Swedish nuclear authority and ABB Power Engineering, contracted to upgrade similar reactors at Lithuania's Ignalina station, say the RBMKs have structural flaws not found in later models. The Soviet-built RBMK cannot be encased in a protective shell to stop the release of radioactive steam during an accident.

A US Energy Department report, released in July, named Chernobyl among the five east European plants that pose "significant safety risks". The study prompted renewed calls to shut funds to help upgrade or close the troubled Sovi-

et-built reactors outright.

A daunting environmental clean-up also looms at Chernobyl. The concrete tomb around the fourth reactor, hurriedly built after the explosion, has developed dangerous cracks and could not withstand a severe earthquake, according to a July study by Alliance, a European consortium. It found leaking nuclear waste trapped inside already polluting local ground water.

The group proposed a \$1.6bn plan to replace the sarcophagus and clean up the stricken reactor. Radioactive waste would be stored in a new tomb and eventually disposed of. The unpopulated Chernobyl zone could be an ideal nuclear waste site, and might guarantee employment for plant workers displaced by an eventual closure.

The Alliance companies - Campon Bernard (SGE), Bouygues and SGN of France; AEA Technology and Taywood Engineering of the UK; and Germany's Walter Bau - stand to win the potentially loca-

tive contract.

But decommissioning Chernobyl remains the immediate goal. The G7 countries want a deal by December, a senior US administration official said last week. He added that about \$1bn to \$2bn was available now. Negotiations held in Kiev last week made progress. Evhen Marchuk, Ukraine's prime minister, said: "The figure of \$400 frightens people; perhaps it will be more, perhaps less." He expressed confidence that a deal could be done this year.

A foreign business lobby has grown around the Chernobyl debate. A European engineering consortium, led by Zurich-based Asea Brown Boveri, in June presented a \$3.7bn plan to replace Chernobyl, which it hopes will win financial support in Kiev and western capitals. Westinghouse, the US group, and Germany's Siemens, are also active.

The companies stand to gain if the west and Ukraine agree on any plan that involves either the construction of a new station or substantial renovation work at existing stations.

David Lascelles examines the economics of upgradeability  
A longer life for green goods

A product which can be constantly upgraded so that it never becomes obsolete would be the answer to a consumer's prayer. It would also be less wasteful and therefore more environmentally friendly. But would it be practical?

Planned obsolescence is now so embedded in industrial design that one's instinctive answer must be no, particularly in this high turnover age. As more product markets become saturated, the only way manufacturers can generate new sales is by introducing a fresh model which tempts the consumer back into the shop.

However, the economics of "upgradeability" are more complex than this, as a report from the UK Centre for Economic and Environmental Development shows.

The report was produced in association with British Telecom and the Industry Council for Electronic Equipment Recycling, and looks at upgradeability prospects for three products: telephones, televisions and personal computers.

Taking them one by one. The average telephone these days has a life expectancy of only three to four years, and millions of them get thrown away or recycled each year. The report says that phones could be made upgradeable since one of the reasons why people buy new ones is to get additional features, such as number memory, or answering machines. If these features could be supplied as modules which could be clipped into an existing phone, upgradeability would be achieved.

However the report also points out that upgradeable phones would be more expensive to design and produce, and would probably be more bulky as well. Although these phones would create customer loyalty by locking people into a particular product, they would never generate profits as large as new sales. Research also suggests that people are, anyway, not very interested in buying such phones.

There might be more scope for upgradeability in TVs because they are much more expensive products. But again, making them

upgradeable would add greatly to the cost, which would reduce their appeal. Manufacturers argue that the best way of reducing the environmental impact of TVs is to make them more energy efficient rather than extending their lives.

In this context, upgradeability would actually be an impediment to greater environmental friendliness because it would discourage people from buying more energy-efficient sets.

The report is more positive when it comes to personal computers. Many machines are already easily upgradeable: they have "slots" for additional memory cards or other features, and their design is often modular. On the other hand, the pace of change is so fast that even the most flexibly designed machine can be out of date within a few years. Thus environmental issues do not really enter into it.

But even if environmentally-driven upgrading does not seem practical at the moment, the report envisages a period in the not too distant future when it might. The spread of "multimedia" services will spawn new types of equipment that will be part telephone, TV and computer. They could have an array of components that could be added or upgraded as the services develop. One example would be the introduction of "video on demand" decoding equipment, or a camera attachment to enable video phone calls.

The report's conclusion, however, is that upgradeability cannot be generally applied: it depends on the device. Product life extension is a valid strategy, but it must not detract from manufacturers' more traditional concern for quality and performance. It will only really work where it can be incorporated without affecting the product, the producer or the consumer.

*\*Making the most of life: Upgradeability. By Neil Bayley. 36pp. Price £2. Available from The UK Centre for Economic and Environmental Development, Suite E, 3 King's Parade, Cambridge CB2 1SJ.*

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**J**ake hates his mother. That is not to say he is a bit irritated by her, or that from time to time they fail to hit it off, he really loathes her. If possible he dislikes his grandmother even more. Indeed he would prefer that she were dead, and has had a go at causing her death by setting fire to the newspaper beside her as she was dozing in an armchair one evening. His most passionate hatred, however, is focused upon his younger brother. He daydreams of luring his brother to the edge of a cliff and then, like a torador, tricking him into diving over the edge. Tomorrow night, in Episode 3 of Alan Bleasdale's six-part Channel 4 series, *Jake's Progress*, he gets so fed up that he packs his bag and leaves home. Jake is six.

It is extraordinary enough to have a television drama in which a small child genuinely dislikes one of his parents, but Bleasdale is intent upon breaking a good many more rules. True, Jake's mother Julie, played by Julie Walters, is portrayed as an almost entirely reasonable person: a hard working nurse whose failure to endear herself to her son results chiefly from the time consuming business of being sole breadwinner, though her refusal even to try to win his affection does seem odd. Her husband, Jamie (Robert Lindsay) having lost his job years ago, has acted as house-husband, dotes on Jake, and gets on fine with the mothers at the playground, but he flatly refuses to face the reality of his situation. Normally the feckless are seen as culpable, if not downright disgraceful, but Bleasdale has given us, in Jamie, a feckless father who is charming and even seems to have reason largely on his side.

Perhaps Bleasdale's real triumph, however, is the grandmother, Grace. She, too, is a nurse, and we are supposed to adore her, yet this one has a sackful of nasty characteristics: she bullies her sick and weak willed husband, makes war on her grandson, and admits to liking Jeremy Beadle. At one stage she even kneels her son-in-law in the groin, an action which, scripted by almost anyone else, would induce hilarity or incredulity in the viewer. Yet within Bleasdale's story it seems entirely believable - even though Grace is being played by that veritable icon of middle-class niceness, Dorothy Tutin. It has not been an outstanding characteristic of his previous work, but here Bleasdale seems determined to run a rasp across the smooth surface of our expectations.

As you watch *Jake's Progress*, and it would be difficult not to continue, once begun, you feel that it has been created by someone who has been keeping a very sharp eye on the human race. The people in this serial are full of the paradoxes and inconsistencies which we recognise from life: just like all the people you know, they



Breaking all the rules: Robert Lindsay, Julie Walters and Barclay Wright in Alan Bleasdale's 'Jake's Progress'

Television/Christopher Dunkley

# True master of family friction

are not quite like anybody else you know. It is surely this impressive feat of the imagination - creating characters who, despite (or even because of) their inherent contradictions are as credible as real people - which identifies the true masters of fiction. With so much television drama such as *Strike Force*, *Bliss*, and *London's Burning* from ITV and *Casualty* from BBC1, what you feel is that it has been written by someone who has been keeping a very sharp eye on television.

Superficially it may seem that the formula drama writers achieve a closer simulacrum of reality than does Bleasdale who is quite happy giving his characters introspective monologues. No doubt people in real life do say the sort of things they say in *Strike Force*. "I have a chance to fly with the elite... watch him John, watch him... it's important this one you know... we're it - Nato's world police... the next three

weeks will be hell on wheels" and so on. Perhaps there are outbursts beyond the confines of television series drama where groups consist of a token black, a token woman, a Welshman, a Scotsman, and a hotly toasty English public schoolboy. The fact remains that when you watch *Jake's Progress* you feel that what you are getting is real passion and real humanity, and when you watch *Strike Force*, *Casualty* or *London's Burning* (all devoted to highly active team jobs) what you feel you are getting is carefully calculated quantities of comedy, sentiment, tragedy, and so on.

They are designed not to engage with us and bring us up against the perceptions of a Bleasdale but to pass the time pleasantly - to entertain us. That being so, it makes better sense to use the tried and tested rather than go for something original. Hence the coming-out routine of *Strike Force* ("Dip, dip, dip, my little ship...") with a band of crack fighters being

whittled down to the team which will perform some vital mission. We have seen it all many times before in everything from *The Magnificent Seven* to *Top Gun*. It was done well enough here but it would make more sense to review the performance of the Tornadoes than of the actors and actresses. If asked to make a 90-minute commercial for the RAF it might look just like this.

**O**f course drama of the Bleasdale sort can be unsettling. Not only is it unpredictable and more likely to shake preconceptions than reinforce them, but it also seems to have elements of that anger about English society which was such a powerful element in *Boys From The Blackstuff*. The high ratings won by series such as *Heartbeat*, *London's Burning* and *Casualty* prove that what many viewers enjoy in their television drama is the familiar,

the predictable, and the sentimental. Even a science-based thriller such as ITV's *Bliss* with its seemingly modernistic yarn about separating long-life genes from DNA and stealing people's blood was actually remarkably conventional. Its plot recalled both the Faust and Frankenstein stories.

There seems little reason to complain about formula drama of this sort when it is so clearly what so many people want. But it is as well to recognise what it is and not to fall for the pool-poaching of the growing army of television accountants. For them budgets and ratings are the only realities and they regard all other estimates of worth - the truth of the piece, the passion and humanity identified here in *Jake's Progress* - as pretentiousness. Since this autumn season contains not only *Jake's Progress* but a superb *Friday* and *Prejudice* from the BBC it seems that the accountants have not yet taken over entirely but eternal vigilance seems in order.

## Alternative theatre

# Eddie Izzard - Definite Article

**T**he pages of the gigantic book which forms the backdrop part to reveal Eddie Izzard slouched louchely on a sofa atop a staircase made of several more huge tomes. The design has virtually nothing to do with the two hours that followed - he just admits that he fancied a big entrance this time round.

As Izzard has grown in confidence, his set has paradoxically become less free-form. Although he still makes the occasional mock-note after an erratic ad lib - "nope, lost you there" - most of his bizarre lateral connections feel less like all-out rabbling, as when he immediately launches into a discussion of the set's orange colour, wondering whether, when Buddhists and extreme Protestants live close at hand, one group has to wear an away strip.

However, he continues to make wild leaps which because even while they delight, Eddie can make connections which are alternatively contrived and inspired almost in the same breath; his school-hand segment moves on with a shaky "and poetry is like music, with less notes and more words", but within a minute he has somehow travelled from Rabbie Burns to a group of mice re-enacting *The Italian Job*.

Having decided a few years ago to include a sizeable sequence about his heterosexual transvestism, Izzard has simply now digested this fact into the background fabric of the current show. The wry choices of rock music played immediately before each half of his act are Aerosmith's "Dude Looks Like A Lady" and the Kinks "Lola" respectively, but the on stage references are

limited to a passing remark about being caught shoplifting make-up at the age of 15. "I was let off with a warning" - about colour coordination.

His stage clothes, as in the publicity photographs, are camp but androgynous: wet-look strides and a scarlet double-breasted Gaudier jacket. These would not even merit a mention but for the outstanding point that, on the press night, he managed to generate some 20 minutes of spontaneous material when a button detached itself from the jacket.

Most others would have breezed onward without a pause. Izzard, however, attracts the kind of fans who throw a miniature sewing kit onto the stage, offering too good an opportunity to pass up. He kept the laughs coming until he had re-tethered the offending article to his right breast, then nonchalantly picked up his planned set in the middle of the sentence from which he had veered off earlier.

Izzard's strength lies not just in the all out absurdity of his imagination, but in the mastery with which he structures and patterns his material. As with that other wild rover of the surreal, Ken Campbell, emblems thrown out seemingly in passing recur much later in the show: those mice with their well-laid plans crop up in every other sequence, and 90 minutes after his original gag the duck he mentions in his final routine is still wearing horseshoes. Eddie Izzard, to adapt one of his own jokes, is a fool to be suffered most gladly.

Ian Shuttleworth

At the Shaftesbury Theatre, London WC2, until December 16 (0171 379 5399).

## The Second Coming

**A**fter *Resurrection*, *Original Sin* and *Hell Bent*, there could really only be one title for Nigel Charneck's compilation of "greatest hits" from his performance trilogy: *The Second Coming*. He confronts his audience with torrents of emotional and at times physical nakedness, and if he is less than 100 per cent successful he nevertheless risks more in two hours than many performers in two years.

Charneck has eschewed the "pure" dance of DVA, the company that he co-founded, in favour of as much impurity as possible. From his first words - a rain of billions frogs upon every target he can think of - it is apparent that this is a man out to cover all conceivable angles of sex and relationships, and to cover them with his own often deliberately unlovely secrets.

His stuttering rapid-fire verbal riffs are the least consistent sequences in terms of impact, but generally he moves too quickly for his failures to catch up with him. He switches from gibber to elegy to dance to music - deploying a rich voice on everything from torch songs to a brash manifesto of polymorphous perversity (imagine early Bette Midler rapping), accompanied by Nicholas Skilbeck on piano.

However, as much as *The Second Coming* is a vibrantly "queer" show, these are at root

the pains of any sexually and emotionally active adult. Charneck may change into a spangled cocktail dress for a number or two, but his costume does not detract from the power when he sings *The Man that got Away*.

Above all, his dance sequences are breathtaking. They seem to have a direct line to his spirit, desires and sufferings; he immerses himself in movement like an ego martyr, thirsty for the flames. This is not an idle simile: a passage which begins unaccountably movingly with Charneck rising sleepless in bed enters another dimension when the duvet is cast aside to reveal a full-sized cross with which he proceeds to execute an awesome *dance macabre*. In the final section of the show, he flings his naked body repeatedly against the floor with frightening violence, ending on Skilbeck's sombre line, "we are all meat together."

Charneck deliberately describes his pieces as "shows", thinking primarily of the spirit of blatant performance which underpins them, but the word is equally redolent of exposure. He leaves nothing hidden; the result is far from pleasant, but is undeniably strong stuff.

I.S.

Drill Hall, London WC1, until Oct 28 (0171 637-8270).

## Theatre/Sarah Hemming

# Quarrels in Restoration Venice

**S**urely the most quarrelsome play in the Restoration canon, Thomas Otway's *Venice Preserved* opens with a resounding argument and carries on that way throughout. Every scene is a tug of war, peaceable exchanges soon turn sour, tempers run at fever pitch. Not just a means of propelling the tragedy forward, the constant wrangling reflects the push-me-pull-you state of mind of the hero, Jaffeir, who finds himself hurtling back and forth, torn between love and loyalty, public and private duty. It also suggests the texture of the world he inhabits: Venice here is a corrupt, polluted place, where every noble aspiration is curdled, and honour and virtue quickly decay.

The lugubrious architectural splendour of Julian McGowan's fine set for the new Almeida production gives concrete form to these ideas. A stage version of a Venetian passageway, its marble walls, pillars, statues and high iron gates suggest a world of oppressive might and moral cul-de-sacs. Contained by this gloomy luxury, Ian McDiarmid's beautifully sculpted production drives the action up and down a narrow tunnel. It is a skilful staging, atmospheric and marvellous on the eye, but it never sounds the depths of the tragedy.

This is partly because the central threesome never quite move you enough - indeed, by the end, you are weary of them, particularly of Jaffeir. Jaffeir is a character who makes Hamlet look the model of decisiveness - a hopeless vacillator, he is torn between his loyalties and tormented by the many shades of right he perceives where others see only black and white. When his friend Pierre conscripts him to a conspiracy to overthrow the corrupt senate, he realises he must murder his wife's father among the senators. Wife and friend are soon battling for his heart and he is ripped apart by these two strong characters.

David Bark-Jones plays him like a scalded puppy, brown eyes pleading from beneath a rumpled brow. Even his walk wavers, as if he had literally got cold feet, and he delivers all his lines in the same expressionless monotone - including urgent pleas to heaven. This is effective in suggesting internalised shock, bewilderment and terror. It works too within the framework of the trio, his listlessness con-

trasting with the energy of Belvidera and Pierre and with their physicality. But it is a reading that leaves him high and dry when it comes to emotional climaxes, and eventually you get so tired of his hangdog demeanour that you want to bang his head off one of the marble pillars.

Ray Fearon is very strong as the resolute Pierre, all attractive energy and decisiveness, while Alice Krige is a whirlwind of femininity and passion as Belvidera. Yet none of them inspires enough sympathy to make the tragic ending remotely moving. McDiarmid finds every nook of humour in the play, however. Otway's wonderfully ripe insults hurtle across the stage and there is a splendid comic performance from John Quayle as a grotesque, lascivious senator, who makes his entrance dribbling sordid endearments and who sums up all that is hypocritical and corrupt about the Venice that is preserved. The production finds all the subtleties and moral twists in Otway's play, but fails to convince you of its power as a tragedy.

Continues at the Almeida Theatre, London N1 (0171-359 4404).



Alice Krige and David Bark-Jones

## INTERNATIONAL ARTS GUIDE

### AMSTERDAM

**GALLERIES**  
Stedelijk Tel: (020) 573 2911  
● Christian Basteens: giant video installation; to Nov 26  
**OPERA/BALLET**  
Het Muziektheater Tel: (020) 551 8922  
● Moses and Aaron: by Schoenberg. A new production directed by Peter Stein and conducted by Pierre Boulez. Soloists include David Pittman-Jennings as Moses and Chris Merritt as Aaron; 8pm; Oct 20, 23, 25, 28

### BALTIMORE

**CONCERTS**  
Symphony Hall Tel: (410) 783 8000  
● Baltimore Symphony Orchestra: with soprano Harolyn Blackwell, mezzo-soprano Delores Ziegler and tenor Karl Dent. Robert Shaw conducts Barber and Mozart; 8.15pm; Oct 19, 20, 21  
**OPERA/BALLET**  
Lyric Opera House Tel: (410) 727 6000  
● La Traviata: conducted by

Alfredo Silipigni and directed by Frank Corsaro. Cast includes Daniela Longhi/Maria Pelligri, Nicole Biondi and Steven Rainbolt; 8.15pm; Oct 18 (7.30pm), 20, 21, 22 (8pm)

### BERLIN

**OPERA/BALLET**  
Deutsche Oper Tel: (030) 34384-01  
● Madame Butterfly: by Puccini. Conductor Sebastian Lang-Lessing, production by Pier Luigi Samaritani; 7.30pm; Oct 21, 25

### FRANKFURT

**CONCERTS**  
Alte Oper Tel: (069) 134 0400  
● Radio Symphony Orchestra: Eliahu Inbal conducts Schumann and Mahler; 8pm; Oct 18 (7.30pm), 19, 20  
● St Petersburg Philharmonic Orchestra: Yuri Temirkanov conducts Rachmaninov's "Symphony No.2" and selected pieces from Prokofiev's "Romeo and Juliet"; 8pm; Oct 22

### LONDON

**CONCERTS**  
Queen Elizabeth Hall Tel: (0171) 928 8800  
● The Chinese New Tide: with soprano Judith Mok and baritone Shi Kelong. Tan Dun conducts a programme of first generation Chinese composers such as Qu Xiaosong and Chen Qigang; 7.45pm; Oct 22  
Royal Festival Hall Tel: (0171) 928 8800  
● Guitar Encounters: an evening of guitar, flamenco and Andean music

with John Williams, Paco Pena and Infi-Ilmank; 7.30pm; Oct 24  
● Philharmonia Orchestra: Christoph von Dohnanyi conducts Richard Rodney Bennett and Mahler; 7.30pm; Oct 19

● The London Philharmonic: Roger Norrington conducts an all-Berlioz programme; 7.30pm; Oct 18  
● The London Philharmonic: with mezzo-soprano Jennifer Larmore, bass José van Dam and the London Philharmonic Choir. Roger Norrington conducts Berlioz's "The Damnation of Faust"; 7.30pm; Oct 25

### OPERA/BALLET

Royal Opera House Tel: (0171) 304 4000  
● The Marriage of Figaro: by Mozart. Conducted by Bernard Haitink/David Syrus and directed by Patrick Young. Soloists include Felicity Lott/Cheryl Studer, Andrea Rost/Barbara Bonney and Robin Leggate/Ryland Davies; 7pm; Oct 18  
● Tosca: by Puccini. Conducted by Simone Young and directed by Jeremy Soutcliffe. Soloists include Galina Gorchakova, Johan Bozza and Francis Egerton; 7.30pm; Oct 20

### MUNICH

**GALLERIES**  
Haus der Kunst  
● Impressionist Masterpieces: from the Barnes Collection. Artists include Matisse, Picasso, Van Gogh and Gauguin; to Oct 22

### NEW YORK

**CONCERTS**  
Carnegie Hall Tel: (212) 247 7800  
● BBC Symphony Orchestra: with

violinist Nadja Salerno-Sonnenberg. Andrew Davis conducts Carter, Glazunov and Brahms; 8pm; Oct 25  
● Maurizio Pollini: pianist plays an all-Beethoven programme; 7.30pm; Oct 23

● Pittsburgh Symphony Orchestra: with flutist James Galway, Lorin Maazel conducts Gould, Mercuriale, Maazel and Bartok; 8pm; Oct 27  
● Pittsburgh Symphony Orchestra: concert performance of Wagner's "Tristan and Isolde" with conducted by Lorin Maazel. Soloists include Carol Yahr, Heinz Kruse and Falk Struckmann; 8pm; Oct 28

● Symphony Orchestra of Montreal: Dutoit conducts Berlioz's "Les Francs-Juges", Saint-Saens' "Piano Concerto No.2", Chausson's "Symphony in B Flat Major" and Ravel's "Spanish Rhapsody"; 8pm; Oct 21  
● Symphony Orchestra of Montreal: with pianist Louis Lortie. Charles Dutoit conducts Berlioz's "King Lear, Overture", Beethoven's "Piano Concerto No.4", Mendelssohn's "Symphony No.5" and Enescu's "Romanian Rhapsody"; 8pm; Oct 22

### PARIS

**CONCERTS**  
Champs Elysees Tel: (1) 49 52 50 50  
● National Orchestra of France: with pianist Andreus Haefliger. Claus-Peter Flor conducts Mozart and Bruckner; 8pm; Oct 21  
**GALLERIES**  
Centre Georges Pompidou Tel: (1) 42 77 12 33  
● Feminine and Masculine: the sexuality of art. Exhibition exploring sexual identity and its effect on

twentieth century artists; from Oct 19 to Jan 8

### STOCKHOLM

**GALLERIES**  
Pro Persona Tel: (08) 20 44 27  
● Kjell Engman: contemporary sculptures in glass and metal; to Nov 11

### VIENNA

**CONCERTS**  
Gesellschaft der Musikfreunde Tel: (1) 505 1383  
● Czech Philharmonic: with soprano Angela Maria Blasi and bass-baritone Thomas Quasthoff. Gerd Albrecht conducts Eben, Mahler and Dvorak; 7.30pm; Oct 28  
● Viennese Symphony Orchestra: Rafael Frühbeck de Burgos conducts Wagner, Brahms and Beethoven; 7.30pm; Oct 21, 22  
**OPERA/BALLET**  
Wiener Kammeroper Tel: (1) 512 0100  
● The Turn of the Screw: by Britten. Conducted by Edgar Seltenreich/Joan Grimalt. Soloists include Mark Duffin, Olga Scholawa and Felix Purnzer/Ingo Petersen; 7.30pm; Oct 21, 23, 25, 28

### WASHINGTON

**CONCERTS**  
Kennedy Center Tel: (202) 467 4600  
● BBC Symphony Orchestra: with violinist Nadja Salerno-Sonnenberg. Andrew Davis conducts Dellore, Glazunov, Carter and Bartok; 2pm; Oct 22  
● National Symphony Orchestra: with pianist James Tocco. George Manahan conducts Debussy's

"Iberia", Stravinsky's "Concerto for Piano and Wind Instruments" and Rachmaninov's "Symphonic Dances"; 8.30pm; Oct 19, 20, 21, 24  
● National Symphony Orchestra: Sir Neville Martinson conducts Bartok, Mozart, Nelson and Beethoven; 8.30pm; Oct 26, 27, 28

● Pittsburgh Symphony Orchestra: with violinist Hilary Hahn. Lorin Maazel conducts Mendelssohn and Bartok; 8pm; Oct 25  
**GALLERIES**  
Hirschhorn Museum Tel: (202) 357 2700

● Directions-Martin Kippenberger: works on paper. Approximately 50 satirical drawings on hotel stationery by the German artist along with some of his collages and drawings on paper; to Oct 22  
National Gallery Tel: (202) 737 4215  
● Winslow Homer: more than 225 works including 86 oils by the American artist; 8pm; to Jan 28  
**OPERA/BALLET**  
Kennedy Center Tel: (202) 467 4600  
● Suzanne Farrell Staged Balanchine: an evening of George Balanchine choreographed pieces performed by an ensemble of dancers from companies such as the Paris Ballet, the American Ballet Theatre and the New York City Ballet. The programme includes "Caconne", "Slaughter on 10th Avenue" and "Tzigane"; 8pm; Oct 18, 19, 20, 21, 22 (2pm)

**THEATRE**  
Kennedy Center Tel: (202) 467 4600  
● Master Class: by Terrance McNally. Zoe Caldwell stars as Maria Callas, reliving her triumphs and tragedies as she coaches a trio of young singers; to Oct 22

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tec

## Ian Davidson



If we have any instinctive concern for humanity and the survival of civilisation, we have to sainte Professor Joseph Rotblat and the Nobel Peace Prize he has been awarded for his ceaseless campaign in favour of nuclear disarmament. Yet if we are thinking of international realism or practical nuclear policy, we cannot easily avoid a nagging doubt over exactly what, in the end, he has achieved to deserve it.

By the same token, it is difficult to shut out an equally powerful feeling of ambivalence about the motives of the Norwegian Nobel Peace Prize Committee in making the award. Mr Francis Sejersted, chairman of the committee, has said the prize was intended, in part, as a protest against continued nuclear testing by France and China. No doubt this sentiment is widely shared, and not just in the countries nearest to the French test site at Mururoo. But will the reputation of the Nobel Peace Prize really be enhanced if it is hijacked as an instrument of political protest?

Prof Rotblat's credentials for the prize are at once impeccable and misleading. As a British physicist (of Polish extraction), he was one of the pioneer scientists who worked on the US atomic bomb project in the closing months of the second world war. But he walked out of the project before Hiroshima because he believed that after the defeat of Hitler, the atomic bomb was not now required for victory and should not be developed further. Thereafter, he devoted much of his life to campaigning against nuclear weapons in company with an international fraternity of like-minded fellow scientists in the Pugwash group, which he helped to found after a conference in 1957 at Pugwash in Canada.

Fifty years later, it seems to me that there are three views you can form of Prof Rotblat, and of his companions in the scientific anti-nuclear campaign.

You can regard them as heroes and saints, striving to bring the world to its senses at the edge of the abyss of nuclear madness.

You can believe that he and his friends were unrealistic scientists, well-meaning but politi-

## Heroes and villains

The message from the Nobel committee may fall on deaf ears

ically naïve, who totally failed to develop the political influence needed to neutralise the danger posed by nuclear weapons.

Or you can believe that his campaign was largely unhelpful to the political strategy of the west for standing up to the Soviet threat during the cold war, since it implied that the two nuclear superpowers were equally dangerous. The extreme version of this view is that, even if the Pugwash scientists were not conscious fellow-travellers, their campaign nevertheless chimed with the purposes of the Soviet Union.

### The French decision to resume nuclear testing is grotesque, reckless and irrational

which sought to portray the US as an important threat to world peace.

I prefer to place him in the category of hero and saint. Fifty years on, many are still horrified that it was the US, a standard-bearer of democracy and civilisation, which dropped the first atom bomb on Hiroshima. Some of today's potential nuclear weapon states pose a much greater threat to world peace than the US, and today's nuclear weapons are many times more destructive than the Hiroshima bomb. If the physicists do not warn us of the dangers, who will?

Yet have their warnings had any effect? Once the US had developed the atomic bomb, does anyone suppose that Stalin could have been persuaded to refrain from developing a bomb of his own? Or Britain? Or France? Or

India? Or Pakistan? Or Israel?

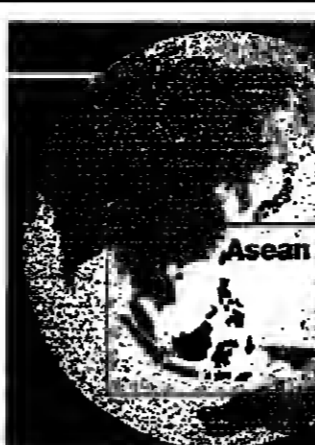
On the contrary, the only serious restraints on nuclear weapons have come, either as a response to the intensity of the nuclear threat, or from the relaxation of the political threats. The pivotal arms control agreements of 1969-72, the first Strategic Arms Limitation Treaty (SALT I) and the Anti-Ballistic Missile Treaty were the direct result of the fact that the Soviet Union had achieved a balance of terror with the US. The recent East-West Strategic Arms Reduction Treaty (START I & II) were the direct result of the end of the cold war and the relaxation of the east-west confrontation. Neither owed anything significant to campaigners for nuclear disarmament.

The French decision to resume underground nuclear testing is grotesque, reckless and irrational. But if these tests are deeply offensive, it is not primarily because they may be physically dangerous by releasing radioactivity, but because the political message they deliver about President Jacques Chirac's attitude appears to be narrow and nationalist.

The nuclear powers today face one very large and difficult problem in the aftermath of the cold war, and one quite small problem. The large problem is to work out whether nuclear weapons have any useful function, and if so, what it might be. Almost by definition, it will be a much less central function than it was, and some leading security experts now advocate a total world ban on nuclear weapons.

The case is not yet accepted, however. So the small problem facing the nuclear powers is how to keep existing weapons operational: governments must be sure they are safe and reliable. But testing is not the only way to achieve that – and for the French to rely on it, six months before next year's treaty banning all nuclear tests, is intellectually incoherent. They should be told so, in no uncertain terms.

But they will not hear the message if it comes from the Nobel committee, and they will reject it if it comes from the European Commission in Brussels. This is a political issue, of France's political relationship with the rest of the world; and it should come mainly from France's leading partners, notably in the European Union.



## Asean: attracting the world's attention

GDP growth rate (% per annum)

	1989	1990	1991	1992	1993	1994	1995	1996
Indonesia	7.5	7.2	7.0	6.5	6.5	7.4	7.1	7.1
Malaysia	9.2	9.7	8.7	7.8	8.3	8.5	8.5	8.8
Philippines	6.2	3.0	-0.6	0.3	2.1	4.3	5.0	5.5
Singapore	9.2	8.8	8.7	6.0	10.1	10.1	9.0	8.5
Thailand	12.2	11.8	8.4	7.9	8.2	8.5	8.5	8.8
Vietnam	7.8	4.9	6.0	8.8	8.1	8.8	8.8	9.0

Figures not available for Brunei

Foreign direct investment (\$m)

	1989	1990	1991	1992	1993	1994	1995	1996
Indonesia	576	682	1,093	1,462	1,777	2,061	2,351	2,641
Malaysia	719	1,668	2,332	3,998	4,488	4,361	4,361	4,361
Philippines	936	583	530	544	228	788	788	788
Singapore	3,665	2,887	5,575	4,888	5,730	5,730	5,730	5,730
Thailand	1,105	1,775	2,444	2,014	2,116	1,401	1,401	1,401
Vietnam	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Asian Development Outlook 1995-96

South-east Asian countries are opening up for trade, say Kieran Cooke and Peter Montagnon

## A liberal pinch of eastern spice

South-east Asia is concerned about retaining its competitive advantage in attracting the foreign investment needed to drive its expansion.

"When other large countries, like China and India, have liberalised their economies to attract investments, Asean countries must respond to this competition," Sultan Hassanah Bolkiah of Brunei told a recent Asean meeting. "We have to take some risks with our over-protected domestic industries if we are not to be left behind."

"Asean is always alert to the challenges posed by lower labour cost countries," adds a Singapore official. "That is a major incentive for Asean countries to liberalise and bring down trade barriers and other impediments to business. It all makes south-east Asia that much more attractive for foreign companies."

"The trend in Asean is the exchange of intermediate products where companies source in bulk," adds Mr Julius Cesar Parreñas of the Center for Research and Communication in Manila. "Asean is one market where investors can segment production and reap economies of scale."

One of the more surprising aspects of the change in mood is the way it has affected the two most protected countries among Asean's original members: Indonesia and the Philippines.

"Since we have been lagging behind, we have to run double fast," says Mr Cielito Habito,

secretary of planning in the Philippines. "We want to achieve global competitiveness."

Competition for inward investment from China and India is one of the main reasons for the sudden appetite being shown for free trade by Indonesia. "We have taken steps to eliminate a number of licensing requirements, control over investments and import barriers that increased the cost of doing business in Indonesia," says President Suharto. In May Indonesia cut tariffs by a quarter and set out a schedule of future reductions. Almost no tariffs will exceed 10 per cent by the year 2003.

For some countries the new interest in free trade also has a strategic dimension. As Asean grows in size and economic strength, it will be a better political counterweight to China. Economic integration provides the best security. "It's the only viable option," says Mr Domingo Siazon, Philippine foreign minister.

Asean officials say the change in mood also reflects a different attitude in the business community. While some industries such as the petrochemical sector in Indonesia and the Philippines have continued to clamour for protection, others have been more aware of the need to integrate themselves into the global production chain.

Thailand's automotive industry is one sector where progressive liberalisation since

the start of this decade has paid off. It has attracted large-scale foreign investment. Exports of vehicles, particularly motorcycles and parts, rose 48 per cent to \$7.12bn (\$284m) in the first eight months of this year.

Last month Asean economic ministers surprised sceptics by signing a draft agreement pledging to open up financial services, aviation, tourism, communications, transportation and construction.

But progress towards liberalisation has been slow in some areas, particularly agricultural products. Sectors such as insurance have been particularly reluctant to see foreign competition. While Thailand might countenance an open skies policy on air transport, Malaysia looks much less keen, says one Thai trade expert.

Most Asean countries also remain a long way from an exclusive trading bloc. The other is that, in the best traditions of Asean, liberalisation is proceeding on a voluntary basis with only a minimum of peer pressure. Quite simply, the member countries have begun to accept that free trade is good for them.

Says Mr Yoo Cheow Tong, Singapore's minister for trade and industry: "We will be doing our domestic industries a long-term disservice during these few crucial years if we do not prepare them early for global competition."

ing resistance to change will be whether the Asean countries, which pride themselves on a loose, consensus-driven approach, will have the political will to speed up the liberalisation process and confront members which default.

Some international trade economists believe that Asean's move towards free trade also reflects a recognition that the grouping has a credibility problem where free trade is concerned. "Asean's been around for a long time, and they really haven't done anything," said one. "Efforts to create a regional free trade area through the broader Asia-Pacific Economic Co-operation forum have focused Asean governments' attention on trade liberalisation."

Many Asean officials are sceptical of Asean's ability to advance quickly, according to the economist, and see their own efforts as a more viable alternative. Some, such as Malaysia, are wary about what they see as a US tendency to use Apec to pursue its own particular sectoral interests.

Asean's move towards liberalisation has two striking aspects. One is that it is being carried out on the so-called most-favoured-nation basis under which benefits such as low tariffs are available globally rather than just restricted to other members of the group. This undercuts any attempt to make the broader Apec an exclusive trading bloc.

The other is that, in the best traditions of Asean, liberalisation is proceeding on a voluntary basis with only a minimum of peer pressure. Quite simply, the member countries have begun to accept that free trade is good for them.

Says Mr Yoo Cheow Tong, Singapore's minister for trade and industry: "We will be doing our domestic industries a long-term disservice during these few crucial years if we do not prepare them early for global competition."

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to "file"). Translation may be available for letters written in the main international languages.

### Maastricht treaty back to front on convergence and Emu

From Mr Avinash Persaud.

Sir, Two cheers to Paul De Grauwe ("An easier road to Emu", October 17) for taking the Emu debate a notch beyond narrow national concerns and pointing out that, however desirable a destination, the European Monetary Union may or may not be the route to Emu laid out in the Maastricht treaty is particularly risky.

Indeed, Professor De Grauwe is too kind. The Maastricht route of prior economic convergence will lead Europe away from Emu, not towards it. Unless they are prepared to let their economies sink into another recession, European governments will not be able to cut back their fiscal deficits

if, at the same time, they are being forced to shore up their currencies with high interest rates. This dilemma is today weighing on interest rate and currency markets in France.

Substantial economic convergence can only occur if it is facilitated by an environment of low interest rates and a weak D-Mark. But here lies the paradox. A weak D-Mark, which restores Germany's competitive position, will erode Germany's motivation for moving to Emu. The German public will only be ready to give up the D-Mark when it is so strong that they can clearly see the unemployment costs of keeping it.

If Emu is to occur, therefore,

it will probably do so the day after the exchange rate mechanism appears to be on the verge of exploding under the pressure of a strong D-Mark. In which case, we should concentrate more on trying to strengthen convergence after Emu, as Prof De Grauwe argues, and not before.

The Maastricht treaty is back to front – but then again, what should we expect from a legal document, drafted by politicians trying to anticipate market developments in the future.

Avinash Persaud, head of currency research, J.P. Morgan & Co, 60 Victoria Embankment, London EC4Y 0JP, UK

### Italy: fiscal discipline, not fantasy

From Mr Mario Monti.

Sir, Your article "the privilege of being Italian" (October 14/15), is based on a light hearted context, on a report by Corriere della Sera in which my views on Italy's budgetary problems are entirely misrepresented. On October 6, the Corriere published a letter of correction in which I reject the notion that "Italian fantasy" can be applied to macroeconomics, perhaps by revising the data for gross domestic product so as to bring the debt-to-GDP ratio down to levels closer to the reference value of 60 per cent in the Maastricht treaty.

As an economist, I have always urged Italian governments to adopt greater fiscal discipline, not greater fantasy. The Commission has always stressed the importance of applying the convergence criteria strictly in order to ensure that monetary union is based on sound economic fundamentals. In this context, it would seem inappropriate to revise the basis for GDP calculation in any country in advance of decisions on which countries should participate.

Mario Monti, Commissioner responsible for the internal market, financial services and taxation, European Commission, Rue de la Loi, 300 B-1049 Brussels, Belgium

### Fokker role in Dutch aviation 'cluster'

From Mr Dany Jacobs.

Sir, Your article on Fokker "A marriage of mistrust" (October 13) somewhat misrepresents some of the findings of our TNO study on the significance of Fokker for the Netherlands International Company News: "Fokker puts government on the spot", September 25). In this study we have stated that Fokker is part of a larger Dutch "aviation cluster" which, through important players like KLM, the Schiphol Airport, the knowledge infrastruc-

ture (especially the National Aerospace Laboratory and the faculty at the Technical University of Delft) and Fokker itself, forms a kind of Dutch centre of gravity within a clearly internationalised industry.

We calculated that this Dutch aviation cluster employs about 68,000 people. This does, however, not mean that they all work in Fokker's supplier industries as is suggested in your article.

We calculated that for each

job with in Fokker there are three jobs in the supplier companies, of which only one is within the Netherlands. Germany (Dasa) and the UK (Shorts, Rolls-Royce) provide the largest specialised suppliers to Fokker.

Dany Jacobs, leader of project on significance of Fokker for the Netherlands, TNO Centre for Technology and Policy Studies, Van Diemenbroekstraat 115, 6512 BA Nijmegen, The Netherlands

### Portillo speech undermines UK ability to help shape Europe

From Mr F.S. Law.

Sir, Having just returned from a short trip to the Continent, I can testify to the appalling reaction UK defence secretary Mr Michael Portillo's speech has evoked there. His derisory comments on "Britain and Europe" make it almost impossible for the UK to influence and persuade its continental partners to take any notice of the UK's views in shaping the future of Europe.

The "little Englander" attitude shown by Mr Portillo, a senior minister, will continue to alienate us from the rest of Europe. He, like other Eurosceptics, talks of Europe and

the UK as if the UK was on another planet. We are part of Europe, we are Europeans and we need to be seen to be Europeans if we wish to influence the shape of that Europe which Mr Portillo so evidently despises.

I would like to suggest to him – who sees himself as a future UK prime minister – to read Winston Churchill's speeches. I am sure this great prime minister would not have tolerated someone with Mr Portillo's views to sit on the front bench with him.

F.S. Law, 43 Lennox Gardens, London SW1X 0DF, UK

### Repressive UK prison system

From Mr Paul Cavadinu.

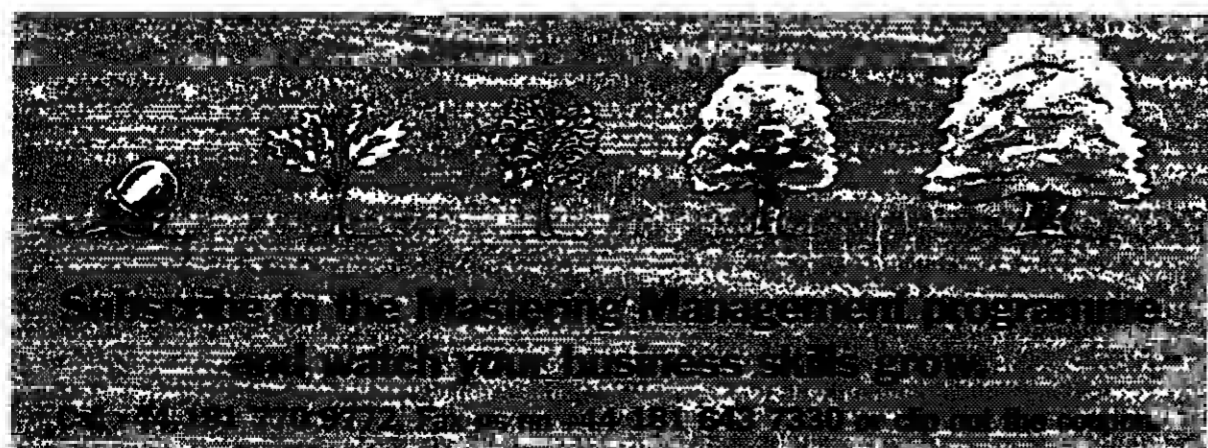
Sir, Your accurate observation that "prison break-outs tend to produce over-reaction and poor policies" ("UK prisons", October 17) is clearly illustrated by the UK home secretary's immediate rejection of Sir John Latham's proposals for television in cells and more home leave. Other European countries have found that the former greatly reduces tension in prisons, as well as facilitating in-cell educational study, while the latter improves rehabilitation prospects by strengthening prisoners' links with their families.

If the UK genuinely wants prisons to protect the public, it must be realised that rehabili-

tating prisoners is just as important as preventing escapes – and arguably even more so as relatively few prisoners escape but virtually all are eventually released.

If the home secretary accepts only those Latham report recommendations which tighten up security, while rejecting those which would produce more constructive regimes, this will produce a repressive prison system turning out embittered ex-prisoners who are much more likely to reoffend.

Paul Cavadinu, chair, Penal Affairs Consortium, 169 Clapham Road, London SW9 0PU, UK



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# FINANCIAL TIMES

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Wednesday October 18 1995

## Barings: the Singapore view

The principal novelty in the Singapore report into the collapse of Barings is an attack on Mr Peter Norris, former chief executive of the group's investment bank. The evidence the inspectors marshalled in support of their "conclusion" that Mr Norris actively covered up the problems in Singapore is, however, largely circumstantial. Mr Norris himself vehemently denies their claims, and in the absence of more substantial evidence - the inspectors have not made their case.

This issue aside, the report agrees in large measure with the report from the Bank of England's board of banking supervision. And it helpfully highlights the speed with which the bank's situation went from damaging to hopeless in early 1995, before the final collapse on February 24.

In fact, the report says, much of the deterioration took place only after Barings had received warnings of troubles in Singapore. For example, Simex, the Singapore International Monetary Exchange, warned Barings twice, on January 11 and on January 25. During January, the bank's auditors discovered a \$50m discrepancy in the Singapore accounts. In reply, Mr Leeson provided documentation from an American broker, which - it is now alleged - he had forged.

Even if true, his explanation should have sent off alarm bells. There were other warning signs. On January 24, the Barings' asset and liability committee decided Mr Leeson's positions were too big, and told him to reduce them - a request he ignored. On January

27, the Bank for International Settlements phoned Barings in London to ask about his trading.

Though the bank was already badly damaged by this point, there would still have been time to avert a complete collapse, or at least to limit the damage to the bank's bondholders, the true victims. Instead, Barings in London sent another \$400m or so to Mr Leeson during the three weeks before the end.

The general lessons for companies dealing in risky financial markets are simple. Listen for signs of trouble, instead of rejecting them. Pay attention to those who issue warnings, instead of treating them as nuisances. And once you start to worry, act quickly. Even if Mr Leeson had been a trading genius, little would have been lost by stopping him dealing for a month while his accounts were checked.

Barings took no such precautions. Perhaps the inspectors' most telling point is made in passing: though Barings had a department called Financial Controls, it was not supposed to control anything, merely to provide helpful information. And it fell down even on that narrower task.

The Singapore report may fall short in its allegations of a cover-up. But, like the Bank of England report, it is entirely convincing in its description of management failure. Together, the Barings and Daiwa stories show that age, respectability and size are no protection against such errors. It is a lesson other financial institutions must heed.

## Rural vistas

It will be easy for the cynic to dismiss yesterday's rural White Paper as a minor diversion. Despite its 150 pages, it is thin on policy recommendations; it promises little new money to enhance the countryside; and it conveys no inspiring vision of what many English people consider to be a prize national asset.

It is an over-ambitious document, certainly. It tries to accommodate the dozens of competing interests which stalk the countryside: the developers, the conservationists, the landowners, the farmers, the businesses and the ramblers. This is probably an impossible task, but one can see why the government has felt a political need to attempt it.

However the paper does provide a useful starting point for a much-needed debate about the sort of a rural environment England wants as it approaches a new century. So many profound changes are now buffeting the countryside, challenging its traditional ways and values, that a new order of priorities is called for.

They include the decline of agriculture, the rise of environmental awareness, the pressures of an urbanised but highly mobile population, and new opportunities created for business by advances in technology and telecommunications. At the same time, there is growing nostalgia for the rural way of life, and an increased need for the tranquillity traditionally offered by the countryside.

A balance needs to be struck between these competing inter-

ests, and delivered through new priorities in the planning system. The government proposes that the planning process should become more flexible and more sensitive to local needs. This will be welcome if it makes it easier to establish non-farm businesses in rural areas without creating unacceptable blots on the landscape.

As the White Paper rightly argues, the countryside cannot be turned into a museum: its vitality must be preserved by encouraging economic activity, and allowing rural dwellers to lead normal lives, with access to housing and social services.

But there are limits to what government can do to achieve this balance. Much hangs on a recognition that agriculture's role has shifted from a source of food and employment to a form of stewardship of the countryside - which in turn depends on further reform of the EU's Common Agricultural Policy. Another area where the paper has highlighted conflicts rather than resolved them is transport policy, a notorious black spot for this government.

The most promising measure proposed yesterday is that rural issues be made the responsibility of a Cabinet committee. This should help to ensure greater consistency in framing rural policy, and to inform the government's general fiscal and regulatory approach. But ministers should not delude themselves that such a move will create the needed consensus on what England wants for its countryside.

## Kohl's challenge

Germany's chancellor, Helmut Kohl, might have been forgiven for making a snug speech of self-congratulation at his party congress in Karlsruhe. Since winning last year's elections by a whisker - a majority of just 10 seats for the ruling coalition in the Bundestag - his Christian Democrats have gone from strength to strength, while the opposition Social Democrats are divided and bickering. The worst pain of unification is probably over, and state finances are slowly being returned to traditional rectitude.

Instead of gloating, however, Mr Kohl chose the gesture of a Jeremiah, warning his compatriots - and his party - against resting on their laurels. Two out of three Germans were born since the war, he said: they had no personal memory of the catastrophe of national socialism, nor of Stalin's bloody dictatorship. Too many seemed to think their prosperity was guaranteed. Too many were content to watch a "spectator democracy" in which they took no active part. Moreover, in an increasingly competitive global economy, there were disturbing signs that young Germans were becoming decidedly risk-averse, he added.

Mr Kohl was right to return to that theme, which he launched two years ago: not only Germany, but most of western Europe, seems to be getting too comfortable to compete. The chancellor quoted a survey of small family businesses in Bavaria - the very heartland of Germany's postwar economic miracle - showing that

in at least half of them, there is no member of the new generation willing to take over the family firm. No fewer than 40 per cent of German college graduates are going into government jobs, not the private sector.

Part of the answer lay in his speech: slim down the state sector, and out back the bureaucracy. The proportion of national income devoted to state spending in Germany is back over 50 per cent, thanks to the costs of unification being carried by the public sector. But it is a tough time to be cutting state jobs, when unemployment is stubbornly stuck at 3.5m, or more than 9 per cent of the labour force. Germany's tradition of social partnership means that both business and trade unions need to be carried along in taking such difficult decisions.

Educational reform is needed, too: it cannot be sensible to keep the average university graduate studying till the age of 23. But the shake-up required is more profound: it is not just the younger generation, but the whole German system which is risk-averse. Mr Kohl's own government is guilty of painfully slow consensus decision-making, with progress dictated by the most cautious party. It was a good system for those postwar years of reconstruction, but it is too cumbersome today.

The chancellor needs to lead by example, and not simply by exhortation. Lean government should also mean decisive government, creating an environment where risk-taking can flourish.

either the glitz nor the glamour of the competing displays at this week's London Motor Show will distract onlookers at the Rover stand, drawn by the surprise appearance of a modest, but crucial, new car.

Rover's new 200 series - originally expected early next year - is the company's challenger in the biggest and most competitive segment of the European car market: the small family-car market, dominated at present by Volkswagen's Golf and General Motors' Astra.

The decision to bring forward the launch of the 200, the last of the cars developed during Rover's former collaboration with Honda, could be interpreted as a sign of the company's confidence in its future under BMW, the German executive carmaker which bought it in 1994.

However, it may more accurately reflect the pressure facing Rover because of its sharply falling sales and hints of its new German master's growing impatience at the group's disappointing performance. "BMW can't let a short-term decline in sales turn into a long-term collapse," says Professor Carol Rhys, professor of motor industry economics at Cardiff Business School in Wales. "So they're trying to take pre-emptive action to prevent things deteriorating further."

One of Rover's biggest problems is its falling market share. In the first eight months of 1995, it sold 179,000 cars in the UK, including the Land Rover four-wheel drive brand. This is almost 9 per cent less than in the same period last year, and leaves the company's market share at 11.3 per cent, down from 12.4 per cent for the first nine months of last year.

The company has fared little better in continental Europe. Sales in the 17 west European countries tracked by the European Automobile Manufacturers' Association have fallen almost 12 per cent in the first nine months of this year. That has cut Rover's European market share to 2.9 per cent from 3.3 per cent in the same period last year.

Mr John Towers, Rover's chief executive, professes to be unworried by the falls, however. They are in line with the company's strategy of repositioning itself as a prestige brand rather than a volume producer, he says.

Rover's strategy in the past few years has been to produce a wide range of cars, but to pitch them above competing models from volume manufacturers such as VW and Ford by offering buyers higher specifications and a more exclusive image.

For several years before being bought by BMW, Rover used the German company as its model. Talk at the group's Birmingham headquarters was of becoming a "British BMW", combining traditional UK motoring strengths, such as wood and leather interiors, with the

# Rover heeds its master's voice

The UK carmaker is striving to become a more upmarket brand under its new German owner, says Haig Simonian



Remodelling: Rover is repositioning itself as a prestige brand, says John Towers, chief executive. Top left, the 600 series, its most successful recent car; centre, the MGF sports car; and the cheap and compact Mini

advanced engineering and improved quality and reliability gained from its association with Honda.

According to Mr Towers, the "correct" UK share for a brand corresponding to Rover's aspirations could be as low as 9 per cent. That, he says, would broadly reflect the true level of demand for a prestige marque.

The company is similarly relaxed about its falling registrations in continental Europe - an area it identified until relatively recently as its target market. Rover attributes the decline partly to the disruption caused by its four new model launches this year: a revised version of the Metro compact hatch-

back (renamed the Rover 100); the MGF sports car; the 400 Series of lower mid-range models; and the 200 Series.

Moreover, the company's focus, says Mr Towers, is now on worldwide sales. This year, US sales have risen by an impressive 77 per cent to nearly 14,000, while registrations in Japan are up 45 per cent to just under 17,000. That has prompted many analysts to forecast that the group's overall international registrations will reach a record in 1995.

Critics claim the decline in Rover's market share in the UK and continental Europe stems from fundamental misjudgments in its product strategy. They say Rover's

vehicles often fall between two stools, rather than being pitched at a particular market segment. The recently launched 400 hatchback, for example, is little bigger than a Golf, but priced and marketed as a rival to the appreciably larger Ford Mondeo.

Some argue that the problems with Rover's products stem from its relationship with Honda. The company has taken basic Honda designs, and customised them to its own requirements. However, Rover was not able to alter basic factors such as the cars' dimensions or overall design. That inevitably handicapped the company, especially after Honda, once Japan's

## BMW takes the long view

Pischetsrieder, BMW's chief executive and the architect of the Rover acquisition.

He has identified four crucial areas on which the UK company will have to concentrate if it is to meet BMW's expectations.

He expects Rover to achieve relatively rapid improvements in two of these: quality and reliability, and competitiveness. "Rover's quality and reliability have improved very substantially thanks to Honda. But they are still not up to BMW standards," he says.

Over the longer term, Rover must expand the geographical range of both its sales and its dealerships. Particularly promising for Rover, according to Mr Pischetsrieder, are markets such as south-east Asia, where BMW's own sales will remain limited because of its relatively high prices.

Finally, Rover must develop new models to complement BMW in the marketplace. This means finding it

a distinct niche as a premium-brand producer, not trying to make the UK company into a "British BMW". While some Rovers may be dearer than BMWs, he says, the "centre of gravity" for Rover's pricing will be below its German parent.

Mr Pischetsrieder foresees Rover evolving along the lines of Audi, the executive-car subsidiary of VW. Audi is a prestige marque, with a strong brand image, which is, however, different from that of BMW. "Someone who buys a BMW would not buy an Audi," he says. While BMW tends to appeal to the sports car enthusiast, Audi remains slightly more conservative.

There are some similarities between Rover and Audi. Both companies specialise in front-wheel drive cars and have a reputation for four-wheel drive technology - although their four-wheel drive vehicles are very different. And both have been innovative with the

use of aluminium, rather than steel, for body panels.

Mr Pischetsrieder and Mr Pischetsrieder know they cannot squeeze much more volume out of BMW without starting to take it downmarket. By developing Rover into a complementary brand, they can gain volume while reaping economies in terms of shared components, research and engineering.

One senior motor industry executive, from a rival manufacturer, believes the Audi model has its merits. He warns, however, that Audi reached its present position as a respected executive carmaker only after nearly two decades of heavy financial support from VW.

"It's very, very difficult to do," he warns. "You have to pitch the price and level of the intermediate product just right, and you need someone with enough money to see you through your mistakes along the way."

The head of motor industry strat-

most innovative carmaker, started to lose direction in its model programme in recent years.

Problems with Rover's dealers have exacerbated its sales difficulties. These are a legacy of Rover's steady decline from being the UK's biggest car company (as British Leyland), when it accounted for about one in three of all new UK car registrations, to its present size.

Rover has culled its dealer network to eliminate many of the smaller garages which no longer meet its new, upmarket image or its higher requirements for facilities and service. However, the process is incomplete. Mr Towers recognises the company still has a long way to go. However, he stresses changes are under way. A lot of the smaller garages have been eliminated. And in some key markets Rover is building a new network based on higher service-oriented distributors, better suited to its present model range.

According to Prof Rhys, Rover's transformation from a mass producer to one concentrating on upmarket versions of a variety of vehicles will be complete and convincing only when it tackles another of the legacies of its past. In spite of its achievements with Honda in renewing its range, the company is still identified with cheap and compact cars such as the Mini and the Rover 100.

Such workaday vehicles, highly successful in their day, now compromise the prestige brand image Rover is trying to develop. The Metro (dating from 1980) and the Mini (which celebrated its 30th birthday this year) are woefully long in the tooth. Even with BMW's backing, Rover probably lacks the resources to renew the two compact cars and its bigger models at the same time.

On the other hand, many think Rover and BMW would be foolish to let the compact cars wither away. "BMW would be crazy to let that know-how and heritage go," says one stock market analyst.

The probable solution, according to senior executives, is that Rover's compact cars will eventually be marketed as a separate brand. "Mini" is likely to become the trademark for a family of new, BMW-inspired sub-compact hatchbacks built by Rover. The Mini and Metro replacements would be consciously different cars, trying to capture the same sense of surprise and radical engineering that greeted the original Mini back in 1959.

The splitting of the Mini brand would meanwhile free Rover to concentrate on bigger, distinctively "British" models, pitched as cheaper, but occasionally overlapping, alternatives to BMW's own upmarket vehicles. This would in turn leave the German marque free to concentrate on the sportier, high-technology saloons which have become its hallmark.



Reitzle: long-term approach

egy at a leading management consultancy asks whether BMW's shareholders - notably the Quandt family which controls the company - are ready to see BMW forego part of its profits (and their dividends) for however long it takes to bring Rover up to Mr Reitzle's standards.

"These things take a lot of time. How will BMW's investors react?" he asks.

## OBSERVER

### Foreign Office forked tongue

General Sani Abacha, Nigeria's military leader, was given a severe dressing down by Britain's Foreign and Commonwealth Office earlier this month. The naughty thing's offence was to have announced that it would take him three years to return Nigeria to civilian rule.

Meanwhile, he added, he would be keeping Chief Moshood Abiola - winner of the 1993 presidential election Abacha helped annul - in jail.

But Abacha shouldn't feel too upset. After all, his finance minister, Tony An, has now aligned in London, where he is participating in a two-day conference on investment in Nigeria. And who hosted a cocktail reception last night to mark the occasion? Why, none other than the tough-talking pro-democracy mandarins at the Foreign and Commonwealth Office.

Jolly good show.

### Uffe puffy

Uffe Ellsmann-Jensen, the former Danish foreign minister, is being touted by some as the most promising candidate to take over as Belgium's Willy Claes is forced to jump ship.

Uffe, as he is familiarly known in Denmark, fits the bill on several scores. He has a distinguished track record in his own country and stood up to Denmark's socialists when they wanted to ban visits by Nato warships in 1988.

What's more, the Danish government would like to get rid of him, as Observer noted last week. Uffe would probably accept the job if offered it. After all, there's never been a Dane with his finger on the Nato trigger before.

That said, will Nato's members want a Dane running the ship? The Danish reputation for high-minded pacifism may worry Nato's more gung-ho generals. But no one could accuse them of being wimpy in Bosnia, where the Danes proved their mettle against the Serb forces at a time when everyone else was calling the UN cowardly.

The biggest obstacle, perhaps, could be the French, whose feelings have been wounded by Denmark's enthusiastic opposition to France's nuclear tests. Hard to see President Chirac giving the nod to Uffe in the current atmosphere.

Mildly, it came as a great surprise when Willy Claes got the job. Nato is not what it was.

### Green piece

All the personnel problems within Greenpeace are evidently muddying the environmental lobbying group's normally clear-minded attacks on French

nuclear tests in the Pacific. Ban the Burgundy, crush the croissant and all that jazz.

So why let the airline Lufthansa, and its current ad campaign, off the hook? Lufthansa's slogan reads: "You close your laptop. You push back your seat and adjust your footrest. A taste of Brie. A sip of Bordeaux."

The background to the ad is a flaming red sky. It's actually a dramatic sunset, but on a cursory glance is not totally dissimilar to the aftermath of a nuclear explosion.

Maybe Benetton's art director has been doing some moonlighting?

### Rocketing prices

Swords into ploughshares is one thing, but missiles into scarecrows? Sergei Kocheshkov, who commands an army anti-aircraft unit near Cherepovets, 230 miles north of Moscow, has placed an advertisement in the local newspaper, offering decommissioned missiles for sale. He also suggests the missiles - their fuel and ammunition replaced by sand - could be used as scarecrows. The price is the equivalent of \$180. Might also make good bird baths...

### The Manila gambit

Manila's atrocious traffic jams have long dominated Philippine

talk shows and letters pages. The city's unhappy road users have watched scheme after scheme fail, as Manila's traffic cops adopted increasingly zany ruses to ease the flow.

But now Manila's authorities have announced a cunning plan. Chief superintendent Romeo Maganto says salvation is in sight. On any weekday he reckons that 20 per cent of private and public vehicles will be removed from the city's main thoroughfare. Vehicles with number plates ending in one or two will be banned on Mondays; those ending in three and four will be banned on Tuesdays. And so on. Sigh. Not that old wheeze. A similar thing was tried by the city worthies of Athens. The Greek scheme permitted cars to travel into the capital only on alternate odd and even days, according to the final figure on the vehicle's number plate.

And what happened? The obvious - Athenians went out and bought second cars, with a useful final number.

Even though it means buying four more cars - or maybe just four more numberplates - we give the Manila variation oh, about a month.

### Imaginative

This is not a joke. A US pharmaceutical company is about to launch the first advertisements for impotence awareness. The company's name? Upjohn.

## Financial Times

### 50 years ago

New 55 Note: The issue of a new type of 55 note, substantially the same in design as the existing "fiver", is announced by the Bank of England.

The "fury" of high sum Bank of England notes in Germany during the war, as well as the desirability of issuing for exchange control reasons, notes now circulating abroad, have made this step expedient.

The new note closely resembles the old, being identical in both colour and size, but the use of thicker paper has made it possible to introduce a metallic thread, as in the case of the £1 and 10s notes. This feature and other safeguards in the printing "will provide additional protection against the forger". The old notes are not yet being called in and will continue to be legal tender.

The first five pound note was printed and issued as far back as 1869. It was minus the lettering Bank of England at the top, but it held an autographed signature. Changes in the form of the note have been few, the last, apart from alterations in detail, being in 1885, when the vitally important words: "I promise to pay" were added.

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# FINANCIAL TIMES

Wednesday October 18 1995

**NU-WAY** MAKING A WORLD OF DIFFERENCE  
**WOLSELEY** THE NEW STANDARD

## Fed approves emergency cash fund for Japanese banks in US

Push for tighter controls after failure to detect losses at Daiwa

By George Graham in Washington and Richard Waters in New York

The US Federal Reserve has agreed to supply the Bank of Japan with emergency cash to provide liquidity for Japanese banks operating in the US, but not for injection into Japan's troubled domestic banking industry, US officials said yesterday.

While the arrangement has won support from US congressional leaders because it will not use US taxpayers' money, Congress is still likely to press for tighter supervision of foreign banks in the US following the recent revelation that trading losses of \$1.1bn at Daiwa Bank had escaped detection.

Congressman Jim Leach, chairman of the House of Representatives banking committee, said the US government did not expect the credit problems of Japanese banks to become unmanageable, but was "prepared to co-operate

fully with Japanese authorities to facilitate, in any emergency, liquidity for Japanese banks operating in the US".

But he warned that "more comprehensive examinations may be needed of foreign institutions, particularly those from countries lacking US standards of transparency and regulatory discipline".

Mr Leach added that it was "extraordinary" that Daiwa's losses had been missed in regular Fed examinations.

News of the Fed's agreement to provide cash to the Bank of Japan follows comments by Japanese officials earlier this week that they were seeking support from other central banks to help relieve the pressure on their domestic banks, which face higher borrowing costs as foreign lenders become more nervous about their stability.

US officials said the arrangement was informal and did not involve any use of US funds, since the Bank of Japan held enough US Treasury bills to swap

with the Fed for cash.

"Foreign holdings of assets, most particularly Treasury bills, are so vast that no foreign legislative body will be required to act in any emergency," Mr Leach said.

Unlike the Mexican bail-out earlier this year, which involved the use of a Treasury emergency fund, the Japanese arrangement is purely between central banks.

However, government officials said the arrangement was in the US's interest, since it could help to stop Japanese institutions raising cash by selling off large holdings of Treasury bills and bonds, potentially depressing the credit market and raising interest rates.

Congressional officials said the agreement with the Bank of Japan differed from arrangements with other central banks only because of the size of the potential liquidity problem that could be created by an estimated

\$470bn of non-performing loans held by Japanese banks.

"The threat of greater supervision of foreign banks, meanwhile, is likely to alarm both the banks and some Fed officials who supervise them."

Foreign banks in the US are still smarting from the country's last regulatory crackdown, which followed the collapse of Bank of Credit and Commerce International and the revelation that Atlanta National del Lavoro's Atlanta branch had made large unauthorised loans to Iraq.

Those scandals led to changes in US legislation which brought the branches of foreign banks - including Daiwa - into the Fed's regulatory net for the first time, and led the supervisory authorities to hire 200 new bank examiners to police non-US institutions.

Fed officials supervising foreign banks said adding more bank examiners would not make it easier to detect fraud, since this was primarily the duty of a bank's own auditors.

## Air traffic controllers end strike

Continued from Page 1

The air traffic control system was 400 persons below complement, putting the controllers in a strong position to enforce an overtime ban and demonstrate the shortcomings of existing work schedules by a crippling work-to-rule.

The government has promised to increase numbers by bringing in former military personnel and recruiting from recently retired air traffic controllers.

It will also spend more than £400bn on upgrading Italy's air traffic control structures. A key step in the agreement will be the gradual conversion of Anav, the civil aviation authority, into a public company.

But travellers' woes are unlikely to end immediately. Unions stressed yesterday it would take time to restore normal operations and that delays were likely, since one runway was out of use at Rome's Fiumicino airport.

Industrial action is also expected to continue at Alitalia where pilots and cabin staff are fighting to prevent job cuts and more flexible working practices.

## China accuses Washington of blocking its WTO entry

By Tony Walker in Beijing

China yesterday accused the US of obstructing its application to join the World Trade Organisation. Ms Wu Yi, minister for foreign trade and economic co-operation, complained that the US had said in March it would take a flexible and pragmatic attitude toward China's accession, but Beijing had seen no US move on the issue.

"The objective conditions for China's access to the WTO are ripe," she said after a meeting with Mr Ron Brown, the US commerce secretary, in Beijing. Mr Brown said the US wanted China to enter on terms commercially acceptable to its trading partners.

He is holding talks to discuss a range of bilateral trade issues including investment, China's WTO bid, textile quotas and dumping problems. Mr Brown, the highest-ranking US official to visit China since the summer of a visit to the US by President Lee Teng-hui of Taiwan, presented Ms Wu with a \$20bn list of planned projects in power, telecommunications and transport in China in which US companies want to be included.



Ron Brown: seeking improved access to Chinese markets

He also voiced concern about lack of progress on contracts worth \$6bn, including those in the power sector, initiated when he visited China last year at the head of a high-powered business delegation.

Mr Brown blamed bureaucratic red tape and financing problems for the hiatus in approvals. China's decision to withhold bank guarantees for most categories of

infrastructure projects was proving a barrier to funding.

"China has not made all the decisions it needs to make about how these projects are to be phased in or decisions that need to be made on the question of government guarantees which count on your balance sheet," he said. Mr Brown cited figures showing US companies invested \$2.5bn in China last year, about five times more than in 1992 and 10 times more than in 1988.

The US expects a trade deficit with China this year of \$38bn compared with \$30bn in 1994, when the Japanese surplus with the US was \$66bn. Some US estimates indicate the deficit could reach \$45bn-\$50bn next year.

Mr Brown expressed unhappiness with the trade imbalance, adding that Washington was seeking improved access to Chinese markets, especially for financial services and major infrastructure projects.

China disputes the US figures, citing its own customs statistics which showed a surplus with the US in 1994 of \$7.4bn. Beijing accuses the US of including items that originate in China but are subjected to further processing in places such as Hong Kong.

## Former head at Barings accused of a cover-up

Continued from Page 1

and Mr Bax took part in an effort to "discourage independent investigations" into Mr Leeson's trading after the discovery of a \$50m discrepancy in January which turned out to be

part of Mr Leeson's losses. They say Mr Norris "also took steps to conceal" the problem from other Barings directors and dissuade Coopers & Lybrand, Barings' auditors in Singapore and London, from mentioning it in their annual

audit letter to management. The inspectors say Mr Norris would have had a motive to conceal losses because his predecessor in charge of securities broking at Barings, Mr Christopher Heath, had left the company in 1993 after it made losses in 1992,

but they stress this is conjecture. Mr Alistair Darling, Labour's spokesman on the City, said the report made it clear that the collapse could not be blamed "solely on one rogue trader" and it had identified serious management failings at Barings.

### Europe today

The most north-westerly parts of the British Isles will have cloud and rain as a new frontal system approaches. Colder air over the UK and the Benelux will result in much lower afternoon temperatures despite sunny spells. The leading edge of the cooler air mass will be over central and north-eastern France, Germany, northern Poland and the Baltic States. The boundary will be cloudy with occasional rain. Fog will form at night in the relatively warm air east of the front. The fog will linger throughout the day in some parts of eastern Europe but most areas will have some sun. The Benelux will have long sunny spells while the central Mediterranean will have some cloud.

### Five-day forecast

High pressure over south-western Europe will build, forcing Atlantic disturbances to follow a more northerly route. Spain, France, the southern UK and the Benelux will be dry with sunny spells and seasonal temperatures. The northern British Isles and Scandinavia will be unsettled owing to a series of depressions. Eastern Europe will have slightly colder air.

FT WEATHER GUIDE

Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES			
Location	Max	Min	Forecast
Abu Dhabi	34	24	sun
Accra	30	20	showers
Algiers	20	15	sun
Amsterdam	15	10	showers
Athens	20	15	sun
Atlanta	23	18	sun
B. Aires	21	16	sun
Bham	15	10	sun
Bangkok	33	28	sun
Barcelona	22	17	showers
Beijing	20	15	sun
Belfast	14	9	sun
Bogota	26	21	sun
Bombay	32	27	sun
Buenos Aires	20	15	sun
Calcutta	32	27	sun
Cairo	28	23	sun
Cape Town	22	17	showers
Cardiff	14	9	sun
Casablanca	17	12	sun
Chicago	17	12	sun
Cologne	17	12	sun
Dakar	28	23	sun
Dallas	22	17	sun
Delhi	32	27	sun
Dubai	35	30	sun
Dublin	14	9	sun
Edinburgh	12	7	sun
Faro	18	13	sun
Frankfurt	15	10	sun
Glasgow	12	7	sun
Glasgow	12	7	sun
Hamburg	12	7	sun
Helsinki	12	7	sun
Hong Kong	28	23	sun
Honolulu	28	23	sun
Istanbul	18	13	sun
Jakarta	32	27	sun
Jersey	18	13	sun
Karachi	32	27	sun
Kuwait	35	30	sun
Las Palmas	28	23	sun
Lima	22	17	sun
Lisbon	22	17	sun
Luxembourg	15	10	sun
Lyon	15	10	sun
Madrid	25	20	sun
Manila	32	27	sun
Moscow	12	7	sun
Mumbai	32	27	sun
Nairobi	28	23	sun
Naples	18	13	sun
Nassau	28	23	sun
New York	18	13	sun
Nice	22	17	sun
Nicosia	28	23	sun
Olo	18	13	sun
Paris	18	13	sun
Perth	28	23	sun
Prague	12	7	sun
Rangoon	34	29	cloudy
Reykjavik	12	7	rain
Rio	28	23	showers
Rome	22	17	sun
S. Francisco	22	17	sun
Seoul	22	17	sun
Singapore	32	27	sun
Stockholm	12	7	sun
Strasbourg	18	13	sun
Sydney	28	23	sun
Taipei	28	23	sun
Tel Aviv	28	23	sun
Tokyo	28	23	sun
Toronto	18	13	sun
Vancouver	12	7	sun
Venice	18	13	sun
Vienna	18	13	sun
Warsaw	12	7	sun
Washington	22	17	sun
Wellington	18	13	sun
Winnipeg	12	7	sun
Zurich	18	13	sun

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## THE LEX COLUMN

### New Burger King

Under the leadership of Lord Sheppard, Grand Metropolitan has been metamorphosed from a sprawling conglomerate to a focused international brand business. But the years of acquisitions and restructurings have arguably been more rewarding for the outgoing chairman than his shareholders. Their investment has underpinned the market during his stewardship, and is now back at January 1992 levels. With the new management team vowing to focus on the existing portfolio, rather than looking for the next deal, investors could be set to reap some rewards.

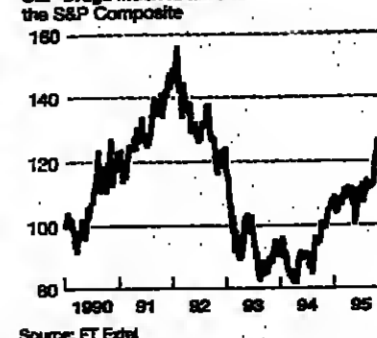
Of course, investors have seen some payback recently, as GrandMet emerged as a bid rumour. Yet with negative net balance sheet worth, after removing brand valuations, there would be few buyers who could afford it. The entire purchase price, of perhaps £12bn, would be goodwill; for a US buyer, amortisation over a 40-year period would knock one third off GrandMet's contribution to pre-tax profits, making a deal hard to justify.

Nonetheless, such rumours do refocus attention on the strength of brands such as Burger King, Green Giant, Häagen-Dazs and the group's spirits labels. GrandMet has taken £519m of restructuring charges in just over two years, but the benefits should come through strongly next year. Increased marketing expenditure should also fuel growth. And interest cover for 1995 should be close to seven times, giving the group scope for further bolt-on acquisitions. Ultimately, demergers could add further value, suggesting a profitable legacy from Lord Sheppard's empire building days.

FT-SE Eurotrack 200:  
1525.0 (+2.6)

US drugs sector

S&P Drugs Index relative to the S&P Composite



Source: FT Edit

declining, sales growth is improving. Merck yesterday reported a 10 per cent increase in third quarter revenues, Eli Lilly achieved 8 per cent and Pfizer 28 per cent, helped by acquisitions. Add in the benefits from cost cutting and industry consolidation and earnings growth of 10 to 15 per cent looks sustainable to the turn of the century.

The big British groups are not far behind, with SmithKline Beecham and Zeneca boasting good new product flows and Glaxo helped by the savings from integrating Wellcome.

As a result, drug stock ratings have recovered strongly on both sides of the Atlantic and now stand on around 20 times this year's earnings. But those companies with strong new drug pipelines like Pfizer, Merck and SmithKline still look attractive.

### Signet

The threat by rebel preference shareholders to take control of the board of Signet may help concentrate the minds of existing management on the urgent issue of restructuring the company. If it does, it will have served a useful function. Signet, formerly the Ratners jewellery chain, has limped along for too long with its debilitating capital structure. There may have been some logic behind the management's wish to delay restructuring until after the renewal of Signet's bank lending facility this summer, but it has not been borne out by the company's languishing share price. In effect, preference shareholders already own the company, since they stand to be repaid ahead of ordinary shareholders, leaving little or nothing on the table for the latter. However, ordinary

### US pharmaceuticals

The latest batch of results from America's pharmaceutical giants shows the industry in remarkably good health. This is a turnaround from 18 months ago, when President Bill Clinton's planned healthcare reforms and the explosive growth of a new breed of tough customers - the managed care providers - were giving companies and investors the shivers.

Since then, the reforms have failed to materialise. And though managed care organisations have demanded discounts, they are purchasing more drugs. Coupled with a range of successful new products, such as Pfizer's depression treatment Norvasc, prescription volume growth is currently at its highest level in the past decade. With prices stable rather than

shareholders still have their votes, which they must use to secure the best deal possible. It may not be in their interests to see the rebels, who represent preference shareholder interests, on the board. Their best hope for an equitable solution may still be to allow Mr James McAdam, the executive chairman, to trundle on, avoiding a firesale.

Still, ordinary shareholders should bite the bullet sooner rather than later. Already, they are highly unlikely to do better than the 20p-a-share deal from the rebels that they turned down earlier this year. As unpaid preference share dividends continue to accumulate, they have little to gain from procrastination. Massive dilution may be their best option.

### GEC

Lord Weinstock can hardly be happy that General Electric Company's share price has risen as his retirement as the company's managing director nears. Yesterday's board meeting may not have made progress on determining a successor, but the company still aims to name a replacement in the spring. The market's enthusiasm for a change at GEC's helm is partly a matter of sentiment. Investors believe a new chief executive with fresh ideas will be able to launch the group on a more dynamic growth path. Lord Weinstock is widely considered overcautious in controlling GEC's cash. Though this means the group's varied businesses rarely get into trouble, they find it hard to achieve their potential. A new GEC chief executive might also try to increase shareholder value by restructuring the business.

One option would be to distribute its £2bn-plus cash mountain. More radically, a break-up of the entire group could be envisaged: GEC-Alsthom, its power generation partnership, could be demerged; its majority share in GPT, its telecoms venture, could be sold to Siemens; and its ragbag of industrial businesses could be spun off. GEC would be left to concentrate on its defence core.

Such radical plans have some theoretical appeal, but would be hard to achieve in practice - not least because demerging GEC-Alsthom would inflict a punishing tax penalty on Alcatel-Alsthom, the venture's French partner. Nevertheless, the possibility of big changes will help keep GEC's share price buoyant. And there is a chance Lord Weinstock will pull a rabbit from the hat before he departs.

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# FINANCIAL TIMES COMPANIES & MARKETS

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Wednesday October 18 1995

**MICHAEL GERSON**  
FOR OVERSEAS MOVING  
0181-446 1300

## IN BRIEF

### Merck rises 10% in third quarter

Rapid growth from promising new drugs fuelled third-quarter results from US pharmaceuticals companies. Merck reported third-quarter net profits ten per cent higher than the third quarter of 1994, at \$362m. Vasoctec, a heart drug, and the cholesterol-lowering drugs Mevacor and Zocor enjoyed strong sales. Eli Lilly's net profit of \$1.23bn, against \$1.18bn a year ago, was swollen by a \$910m after-tax gain. Third-quarter sales of its antidepressant, Prozac, were up 7 per cent on the same period last year. Page 16

**Time-Warner restrained by cable side**  
Double-digit earnings increases in publishing, film entertainment and television programming only partly helped the Time-Warner group compensate for continuing losses in its fledgling WB Network cable television division and a \$85m charge in the music business in the third quarter of this year. Page 16

**Marlboro lifts Philip Morris to \$1.4bn**  
Strong international sales of Marlboro cigarettes helped Philip Morris, the branded goods manufacturer, increase earnings 17 per cent in the third quarter to \$1.4bn. Earnings per share, lifted by a \$60n stock buy-back programme, were up 20 per cent at \$1.71. Page 16

**Strong borrowing buoy leads US banks**  
A group of big US banks, led by Chemical Banking, posted further strong profit gains in the third quarter, aided by renewed borrowing by consumers and the effects of recent cost-cutting efforts. Citibank, meanwhile, recorded a 2 per cent decline for the period on a higher tax charge. Page 16

**Italians put 3% ceiling on Eni stakes**  
The Italian government has set a ceiling of 3 per cent on individual stakes in Eni, the state-owned energy and chemicals company, which should be partially privatised before the end of this year. Page 17

**Thomson sell-off could come next spring**  
Thomson, the French electronics and defence group, could be privatised next spring, according to a finance ministry report which has been submitted to the National Assembly. Page 17

**Coles Myer saga nears conclusion**  
The air of an end-game is beginning to hang over Coles Myer, Australia's largest retailer, after three big institutions refused to be pacified by the group's offer to turn itself into a handful of separately-listed companies, insisting on boardroom changes and corporate governance issues be addressed first. Page 20

**GEC defuses clash over succession**  
The General Electric Company of the UK defused a row over how a successor to Lord Weinstock, managing director, should be chosen. Page 23

**Sema in talks on £60m Citi takeover**  
Sema Group, the Anglo-French computing services group, yesterday said it was in talks to acquire Citi, the French systems integration and outsourcing group, in a deal thought to be worth around £60m (\$83m). Page 23

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Chief price changes yesterday		
<b>FRANKFURT (DEM)</b>		
Basf	1292	+ 17
Bayer	577.5	+ 13
Viel	780	- 30
Wolfs	329.5	- 10.5
Wolfs	635	- 17
Wolfs	635	- 10
<b>NEW YORK (\$)</b>		
Alcoa	49.4	+ 1.4
Eastman Kodak	59.4	+ 2.4
Intel	64	+ 6
San Micro	85.4	+ 7
Wolfs	54.4	- 1
Wolfs	62.4	- 1
<b>LONDON (£ pence)</b>		
Alcoa	820	+ 22
Eastman Kodak	320	+ 18
Intel	524	+ 20
Northern	465	+ 16
Wolfs	185	+ 14
Wolfs	581	- 15
<b>TORONTO (CAN)</b>		
Alcoa	54.4	+ 1.4
Eastman Kodak	28	+ 2
Intel	64	+ 6
San Micro	85.4	+ 7
Wolfs	54.4	- 1
Wolfs	62.4	- 1
<b>PARIS (FF)</b>		
Alcoa	1052	+ 17
Eastman Kodak	1339	+ 13.8
Intel	630	- 14
San Micro	811	- 24
Wolfs	586	- 14
<b>TOKYO (Yen)</b>		
Alcoa	1540	+ 47
Eastman Kodak	775	+ 27
Intel	1000	- 20
San Micro	387	- 29
Wolfs	1010	- 30
Wolfs	701	- 18
<b>HONG KONG (HK\$)</b>		
Alcoa	27.45	+ 0.4
Eastman Kodak	113.5	+ 0.5
Intel	1.25	+ 0.5
San Micro	65	- 0.7
Wolfs	8.35	- 0.9
Wolfs	23.2	- 0.4
<b>BANGKOK (Baht)</b>		
Alcoa	250	+ 10
Eastman Kodak	236	+ 8
Intel	216	+ 10
San Micro	320	- 10
Wolfs	122	- 26
Wolfs	364	- 26

New York & Toronto prices at 12.30.

## Kodak surges 75% in third quarter

By Tony Jackson in New York

Eastman Kodak, the US photographic group, surprised the market yesterday with a 75 per cent jump in third-quarter earnings per share, or 32 per cent before special items. The company also said it would spend \$1bn on a share buy-back.

The repurchase, partly offset by a \$500m contribution of stock to the Kodak pension fund, would reduce shares in issue by about 2.5 per cent and lift earnings per share, the company said. Net earnings for the quarter totalled \$338m, or 99 cents a share, against \$193m, or 57 cents, a year ago. Kodak's shares were up 32% to \$56 by lunchtime yesterday.

Much the strongest sales growth continued to come from consumer imaging in the US, with an increase of 18 per cent, to \$761m. Sales in US commercial imaging

US group to spend \$1bn on share buy-back, partly offset by pension fund contribution

fell 1 per cent, to \$989m. Sales of consumer imaging outside the US were up 11 per cent, at \$1.1bn.

Mr Harry Kavetas, chief financial officer, said the fastest-growing business in sales terms was digital imaging. In the past year, the development of digital technology had become central to Kodak's growth strategy. While the business remained loss-making, Mr Kavetas said the company was still committed to making it profitable by 1997.

The office copiers business remained loss-making, Mr Kavetas said "that is not a rapidly growing part of our business. It's a very tough, competitive market."

While sales growth for the group, at 3 per cent for the quarter, represented a slowdown from the first half, growth in operating income accelerated to 52 per cent. Mr Kavetas said on selling, general and administrative expenses, where the group had been criticised for being slow to reduce costs, there was a long way to go. However, the previous trend whereby expense had risen faster than sales had been halted.

Manufacturing productivity had improved in the quarter, both on the camera and other equipment side of the business, which critics have seen as inefficient, and on the film side.

Mr Kavetas said the decision to buy back shares, which was widely expected, had been prompted by the group's ability to generate strong cash flows. "We've been of the view for some time that we have enough cash to fund our growth and be able to take opportunities for acquisition, and still be able to return cash to shareholders," he said.

At the end of the quarter the group, which has recently completed a sweeping disposal programme, had net cash of about \$300m. Cash flow in the quarter, after payment of the dividend, was about \$500m.

Mr Kavetas said the \$500m payment into the pension fund, the first since 1982, had chiefly been prompted by a rise in the number of retirees. He said: "We chose to do the contribution in the form of Kodak stock because we thought it was a good buy."

## Food and drinks group prepares for chairman's retirement in March next year

### Grand Metropolitan names senior management team

By Roderick Oran, Consumer Industries Editor

Grand Metropolitan, the British food and drinks group, yesterday chose the management team which will run the company after the retirement of Lord Sheppard, its chairman, and for the third time in 10 years the disappointed candidate in a Grand Met succession battle swiftly said he was quitting.

Mr George Bull, 59 and the current chief executive, will step up to chairman and Mr John McGrath, 57 and head of IDV, GrandMet drinks arm, will become group chief executive.

They will take over when Lord Sheppard retires in March after a decade in which he transformed a rambling conglomerate into an international drinks and food business.

But Mr David Nash, 55 and Mr McGrath's rival for the number two position, will leave the group next January. Based on his two-

year contract, Mr Nash will receive £780,000 compensation. Mr Nash's current job as head of GrandMet's food businesses was abolished yesterday with immediate effect. Its operations, the food processor Pillsbury and the Burger King restaurant chain, now report directly to the chief executive.

GrandMet's methods of developing internal candidates, choosing the winner and then promptly parting company with the loser is unusually clear cut and open for a British company, some recruitment specialists suggested.

"Some people outside GrandMet think there's been an awful fight and bear garden going on around here," Mr Bull said. "But that's not true at all. Everything has happened exactly in the proper process."

Two years ago, Mr Ian Martin lost out to Mr Bull when Lord Sheppard relinquished the chief executive role to concentrate on

the chairmanship.

Mr Martin was credited with buying Pillsbury, which included Burger King, and integrating it in GrandMet. For his part, Mr Bull had turned IDV from a minor British business into a global one.

After Lord Sheppard became chief executive in 1986, Sir Anthony Tennant, head of IDV, left to become chief executive of Guinness, the drinks group from which he has since retired.

GrandMet said the race between Mr McGrath and Mr Nash was close. Mr McGrath had joined the group in 1985 as a director of its then brewery business and had 15 years of senior international management experience.

Mr Nash joined in 1989 as finance director from the same post at Cadbury Schweppes but his lesser experience in general management weighed against him.

"The choice of McGrath is



John McGrath (left) chief executive and George Bull, chairman quite a good balance," one stockbroker analyst said. "He's a sound operator but is also open to intellectual argument." Lex, Page 14; Background, Page 23

## NatWest buys Wall Street M&A boutique

By Maggie Urry in New York and Alison Smith in London

NatWest Markets, the investment banking division of National Westminster Bank, is paying \$135m for Gleacher & Co, a private New York mergers and acquisitions boutique. The deal could presage other takeovers of Wall Street firms, as banks anticipate the removal of Glass-Steagall restrictions in the US which prevent commercial banks owning investment banks.

The acquisition will be financed by NatWest issuing 13.7m new shares, which the shareholders of Gleacher, its five partners and a number of employees, intend to retain. Mr Eric Gleacher and Mr James Goodwin, who together founded the firm in 1990, said they planned to stay "for the long term" with NatWest. Mr Gleacher will be chairman of NatWest Markets North America.

NatWest Markets includes the largest foreign-owned equity bro-

ker-dealership in the US but its investment banking side is small. The Gleacher acquisition will roughly double its staff to 80.

Mr Martin Owen, chief executive of NatWest Markets, said the purchase of Gleacher was an important step in the development of the investment banking activity and further acquisitions could be expected.

However, analysts in London were puzzled by the deal, which comes less than a month after the bank said it was planning to

sell its US retail banking arm. Mr Owen said the divergent paths being taken showed "how non-attached the businesses are".

One analyst, expecting NatWest Markets to make further acquisitions, said of yesterday's deal, "it may be a step in the right direction, but there is an awfully long way to go".

Mr Owen expected Gleacher to make a significant impact on NatWest's earnings.

Mr Gleacher said although his firm earned fees from its merger

and acquisition work, its lack of capital had prevented it participating in lucrative, related financings. With NatWest's backing, he said, Gleacher could treble its earnings.

The deal with NatWest Markets dissolves Gleacher's informal agreement with Deutsche Morgan Grenfell under which the two introduced business and shared fees. Mr Gleacher said the firm could have sold to Deutsche but preferred NatWest as they shared the same "vision of the future".

## Barry Riley Global bond managers fight 18-month jinx



Global bond managers are reporting good performance numbers for the third quarter. The shot in the arm is badly needed. At the end of 1993 the

good times ran out for the managers running international fixed interest portfolios, and they desperately want to put behind them what they view as an unfortunate 18-month performance blip.

For many years it seemed quite easy for the global bond funds to outperform their benchmarks - usually the world government bond indices produced by Salomon Brothers or J.P. Morgan. Times, to draw on a UK pension fund database, the WM universe of overseas bond portfolios outperformed the J.P. Morgan World ex UK Index by an average of 170 basis points (1.7 percentage points) annually during the five years to 1993.

In contrast, global equity managers have had great difficulty in outperforming. In those same five years, international equity funds measured by WM fell short of the return on the FT/S&P Actuaries World ex UK Index by an average of 60 basis points annually.

Why the difference? The global bond benchmarks are narrowly defined, covering only the government bonds of 13 or 14 countries. But global bond managers can invest outside that sovereign group - in emerging market debt, for example - and they can buy corporate bonds or asset-backed securities which offer higher returns (subject to occasional credit quality scares). They can also seek to add value by departing from the benchmark's duration and currency mix.

been possible in the past to exploit certain inefficiencies - for example, that in many countries institutional investors are largely trapped, by statute or custom, in domestic markets.

Global investors able to move their money around freely have been able to outperform. But these global funds may now be getting so big - the Russell universe runs to nearly \$50bn - that they are dominating their markets and thus running out of exploitable inefficiencies.

then, currency selection, in particular, has gone badly wrong.

Certainly, 1994 was a terrible year. Frank Russell's median manager underperformed the S&P500 by more than 400 basis points, and in the WM global bond universe the median underperformance was over 500 basis points.

Was this an aberration caused by a freak bond market crash? No, because when bonds surged back in the first half of 1995 most managers were again left well behind. The WM median missed the index return by another disastrous 500 basis points (and the Russell funds by 330).

The dollar-yen rate has been a source of problems. The yen's strength cost a lot of money in the first half. But bond managers who kept their nerve (and their client base) have seen recovery. Preliminary third-quarter returns received by Russell suggest average outperformance of 180 basis points, clawing back half of the shortfall during January-June.

Mr Higgins identifies a large problem as being the failure of "value" analysis of currencies, so that purchasing power parity has been no help in understanding or predicting the dollar/yen or dollar/D-mark exchange rates.

Mr Baillie points out that in the past 18 months the indices have suddenly got tougher to beat. If this phenomenon persists, clients could be drawn towards more restrictive mandates or even formal indexation.

That poses the question in these days of growing fiscal crisis, of whether investors really want their global bond portfolios to be increasingly skewed towards the countries that have the biggest indebtedness and the most endangered currencies.

## £32.5 million Management buyout of Glass's Information Services Limited

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September 1995

## INTERNATIONAL COMPANIES AND FINANCE

## AMERICAS NEWS DIGEST

## General Electric in widespread advance

General Electric, the US conglomerate, produced an 11 per cent rise in earnings in the third quarter to \$1.6bn, and forecast a record figure for the full year. Third-quarter earnings per share, boosted by a continuing \$5bn stock buy-back programme, rose 13 per cent to \$0.96.

Eleven of the 12 divisions increased revenues, led by the financing division GE Capital, the plastics division and NBC, the television network. There was a fall in revenues in the medical systems division. Group revenues rose 19 per cent to \$17.3bn, with about half that coming from acquisitions. Mr Jack Welch, chairman, said globalisation and higher productivity had provided both revenue growth and higher margins.

Group operating margins for the quarter rose from 12.8 per cent to a record 13.4 per cent. Five divisions produced double-digit increases in operating profit, led by NBC, plastics and aircraft engines. NBC benefited from a pick-up in the advertising market, and higher audience ratings, while plastics and aero engines enjoyed higher sales and better productivity. GE's shares were unchanged in early trading at \$62 3/4.

Tony Jackson, New York

## Merrill Lynch continues recovery

Merrill Lynch, the Wall Street firm which in August paid \$313m for Smith New Court of the UK, increased third-quarter net income from \$232m to \$300m. However, the gain over the second quarter of 1995 was a more modest 6 per cent.

Fully-diluted earnings per share were up from \$1.10 to \$1.48 in the quarter, and from \$1.39 in the second quarter this year. The Smith New Court acquisition did not have a large impact on the third-quarter numbers. Merrill said it would amortise \$550m of goodwill over the next 15 years, of which \$4m was taken in the quarter, with \$7m of integration costs. In the quarter net revenues rose from \$2.3bn to \$2.6bn, with all areas ahead. Investment banking revenues increased 44 per cent to \$354m aided by high levels of underwriting and mergers and acquisition activity. Revenues from principal transactions rose only 1 per cent to \$663m, hit by falls in swaps, equity derivatives, municipal securities and mortgage-backed instruments.

Maggie Urry, New York

## Windows helps Compaq sales

Compaq Computer reported record sales of \$3.6bn for the third quarter, in line with expectations, after Windows 95, the new personal Microsoft operating system, boosted sales in North America.

Revenues increased 27 per cent from \$2.8bn in the third quarter of 1994. Net income grew 22 per cent to \$245m from \$201m in the year-ago period. Earnings per share moved ahead 19 per cent to 89 cents. Mr Daryl White, chief financial officer, said that weakness in the European market was offset by very strong demand in North America. While shipments of the portable product were only about 20 per cent of the company's target, this was offset by strong desktop and server sales.

For the year to date, Compaq reported revenues of \$10.1bn, up from \$7.6bn. Net income was \$707m compared with \$624m in the same period last year. Earnings per share increased from \$2.33 to \$2.57, fully diluted.

Louise Kehoe, San Francisco

## Discounting hits Caterpillar

Caterpillar, the Illinois-based heavy equipment maker, said third-quarter profits fell below year-ago levels as dealers cut inventories and price discounting and the weak US dollar dented overseas income. For the quarter ended September 30, Caterpillar earned \$213m or \$1.07 a share, down from \$244m, or \$1.20, in last year's third quarter. Revenues rose to \$3.7bn in the quarter, from \$3.5bn in last year's third quarter.

Caterpillar's shares were \$1 lower at \$54 1/4 in early New York trading. The company said it expected 1996 sales to be similar to those of 1995. The company's US sales slipped 6 per cent in the third quarter to \$1.63bn. Sales outside the US, which represented 54 per cent of third-quarter revenues, rose 17 per cent to \$1.94bn.

Laurie Morse, Chicago

## New products boost US pharmaceutical groups

By Daniel Green

Rapid growth from promising new drugs were in evidence in the third-quarter results from US pharmaceutical companies yesterday.

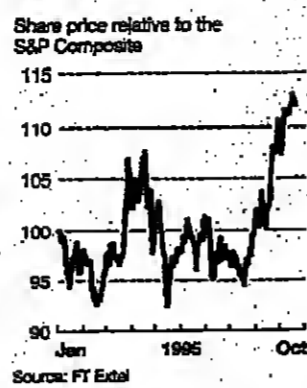
Sales at Merck, the biggest US drugs company, were 10 per cent higher than in the third quarter of 1994 at \$4.2bn. Net profits also rose 10 per cent, to \$862m, and earnings per share were up 13 per cent at \$0.70.

Sales were depressed by tax charges related to the formation of a joint venture with Astra and asset sales.

The joint venture sells the ulcer drug Losec, whose third-quarter sales were below analysts' expectations at \$320m. Merck shares were trading down 5 1/4 at \$58 3/4 yesterday and Astra shares fell \$K7 to \$K7249.

Merck said its overall sales growth was led by newer products and by the Merck-Medco

El Lilly



Source: FT Data

managed care business. Good sales growth was recorded from Vasotec, a heart drug, and the cholesterol lowering drugs Mevacor and Zocor. Merck claimed it has 40 per cent of the global cholesterol lowering drug market.

Disposals also affected third-quarter figures from Eli Lilly,

## DRUG COMPANIES: THIRD QUARTER RESULTS

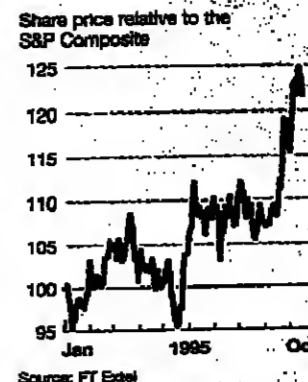
	Sales/\$m	Change/%	Net profits/\$m	Change/%
Merck	4,171	23	861.9	10
Eli Lilly	1,631	9	318	unchanged
Upjohn	831	5	133	4
Pfizer	2,624	27	425.3	26

\*Excluding asset sale and formation of joint ventures  
†Including after tax gain of \$500m from the divestiture of the Medical Devices and Diagnostics units  
‡Including operations adjusted for unusual items

where a net profit of \$1.23bn, compared with \$318.7m a year ago, was swollen by a \$500m after-tax gain from the divestment of its medical devices and diagnostics businesses. Sales rose per cent to \$1.63bn.

Third-quarter sales of its antidepressant Prozac were \$80.7m, up 7 per cent from the same period a year earlier. This growth had been held back by an accumulation of domestic wholesaler inventories and compared with 20 per cent growth for the first nine months of 1995 from the same period in 1994.

Merck



Source: FT Data

items and a change in its effective tax rate left third-quarter sales up 3 per cent at \$831m and profits up 4 per cent at \$133m.

The company was hit hard by competition in the US from manufacturers of generic unbranded products. US drugs sales fell 10 per cent.

This was more than compensated for by a 13 per cent increase in non-US sales which were the result of volume, rather than price, increases.

Pfizer, which announced its third-quarter results late on Monday, lifted sales by 27 per cent to \$2.6bn and net profits by 26 per cent to \$425m.

Growth was led by a 52 per cent increase in sales of a heart drug Norvasc, to \$334m. Norvasc is now the company's best-seller, having overtaken Procardia XL, another cardiovascular drug, whose sales were flat at \$292m.

● Rhône-Poulenc Rorer, the US drugs company controlled by Rhône-Poulenc, the French chemicals company, yesterday received approval from an advisory panel to the US Food and Drug Administration to sell its cancer drug Taxotere.

This reverses an earlier opinion which was concerned that this drug was unsafe.

## Time-Warner held back by WB Network

By Christopher Parkes in Los Angeles

Double-digit earnings increases in publishing, film entertainment and television programming only partly compensated Time-Warner group for continuing losses in its fledgling WB Network division and a \$5m charge in the music business in the third quarter of the current year.

The fast-expanding cable television business also showed a 9 per cent profit rise, reflecting an industry-wide recovery from recent rate

cuts imposed by the regulators.

The group, which is in the throes of a merger with Turner Broadcasting System, ended the quarter with profits before taxes, interest, depreciation and amortisation down about 2 per cent at \$728m and on revenues up 6 per cent at \$4.34bn.

Nine-month earnings were still ahead - up 6 per cent at \$2.3bn, turnover up 11 per cent at \$12.6bn.

Mr Gerald Levin, chairman, said he was pleased with the underlying health of the business which was demonstrated by a record nine-month profit.

Time Inc., the publishing division which produces Fortune and Time Magazine, yielded a 10 per cent earnings rise to \$36m - a "truly remarkable" result in the light of sharp increases in newspaper costs, said Mr Levin.

Postal costs also rose, but strong magazine advertising sales and good results from the QVC book publisher kept the subsidiary on track for a possible earnings record for the year.

Commenting on the group's \$390m total income for the quarter from its cable televi-

sion interests, compared with \$242 in the same period last year, Mr Levin said noted the impending acquisition of Cablevision would bolster its on-line customer list by 2m subscribers.

Cable's advertising and pay-view revenues rose during the quarter, while the subscriber base grew 5 per cent after subtracting the effects of acquisitions. Music's earnings in the quarter dropped from \$172m to \$142, partly because of charges resulting from restructuring and the closure of a direct marketing business.

Omitting the effects of the charge, the company said nine-month pre-tax earnings were a record \$480m.

Home Box Office, the popular programming operation, earned a record \$74m in the review period - up 12 per cent - increasing profits for the year so far by 13 per cent to \$230m. Warner Bros Films, bolstered by the success of *Batman Forever*, reported earnings up 13 per cent at \$129m.

The WB Network lost \$7m in the quarter, bringing the cumulative 1995 deficit to \$40m for the nine months.

## GM shows strongest third period since 1988

By Richard Waters in New York

General Motors recorded an improvement of \$800m pre-tax in the results of its core North American car and truck business in the three months to the end of September, enabling the group to report its best third-quarter profits since 1988.

However, GM's European operations, hit by the start-up costs of Opel's new Vectra and the strong German mark, slumped to a loss. Together with weaker results in Latin America, this contributed to a pre-tax loss on international operations of \$117m, compared with a profit of \$243m a year before.

Overall, the group reported after-tax profits of \$642m, up 16 per cent from a year before. Earnings per share rose to 42 cents, from 40 cents.

Both periods benefited from lower-than-normal tax charges, which added 15 cents a share to net income in the latest period and 31 cents a share in the 1994-period, GM said.

The group's profits for the quarter, traditionally the weakest of the year for car makers, because of model changeovers, were generated almost entirely by its non-automotive businesses.

EDS, the data processing and consulting business which is scheduled to be spun off from GM, reported a 14 per cent rise in after-tax earnings to \$246m. Hughes Electronics registered a 5 per cent advance in post-tax earnings, to \$256m, and net income at General Motors-Acceptance Corporation, the group's financial services arm, rose 4 per cent to \$234m.

The improvement in GM's North American operations, which recorded a pre-tax loss of \$185m in the quarter, stemmed mainly from lower materials costs and lower overtime pay. Pension expenses, said Mr Michael Losch, the group's chief financial officer, were \$174m.

The level of incentives paid to attract buyers of \$670 a vehicle, compared with \$714 in the previous three months, was \$35 a year ago - was likely to remain stable in the final quarter of the year, Mr Losch added.

That contrasted with Chrysler, which has been forced to increase incentive payments this year to clear out old models in preparation for new vehicle launches.

General Motors' European operations lost \$98m after tax (a pre-tax figure was not available) during the third quarter, in part because of the cost of introducing the Vectra.

Also, said Mr Losch, the company had "too much cost in Deutsche Marks and too much revenue in other currencies".

## All divisions contribute to record Sprint result

By Alan Kane

Sprint, the second-largest US long distance carrier, yesterday reported record third-quarter results, with increases in operating profits across all its business units.

Net income increased 16.7 per cent to \$265m, or 76 cents a share, from \$230m, or 69 cents, in the same period last year. Operating income rose 15.6 per cent from \$470m to \$544m, while revenues grew 6.4 per cent from \$3.23bn to \$3.43bn.

Mr William Esrey, chairman, said the company's long distance operations had achieved a double-digit profit margin for the first time: "It was a very positive quarter for our long distance operation," he said. "The strong gain in operating profit and a 10.1 per cent oper-

ating margin is the result of the emphasis on business process improvements across the entire division."

He said data communications was the fastest growing

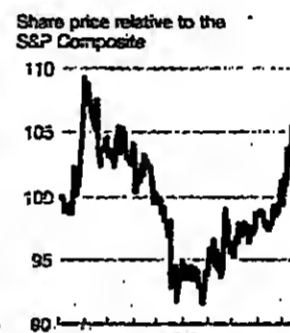
segment of the long distance business, with revenues up by more than 50 per cent from last year. Sprint was the largest carrier in Internet business with more than 60 per cent of international Internet traffic.

The company operates in the local market, in addition to long distance carriage, where it saw operating income rise 13.7 per cent from \$222m to \$252m.

For the future, Mr Esrey said the company's national communications venture in collaboration with the cable companies Comcast Corporation, Cox Communications and Telecommunications Inc. will be able to reach almost 40 per cent of the 100m households in the US.

For the nine months to September 30, revenues increased 7 per cent from \$9.42bn to

GTE



Source: FT Data

\$10.08bn, while net income was up 12.7 per cent from \$655m to \$739m.

● GTE Corporation, the largest US local telecoms operator, said consolidated net income

for the third quarter was \$694m, 11 per cent ahead of the \$620m recorded last time.

Consolidated revenues and sales rose 4 per cent from \$4.93bn to \$5.12bn. The figures excluded \$66m of revenues attributable to non-strategic telephone properties and the satellite communications business, sold in 1994.

Mr Charles Lee, chief executive, said the results benefited from strong demand in both the fixed line and wireless business. Network usage increased 10 per cent, while cellular customers grew 41 per cent.

For the nine-month period, net income rose 9 per cent to \$1.81bn from the same period last year, while revenues increased 4 per cent to \$14.93bn.

## PepsiCo rises on restaurant sales

By Lisa Branstetter in New York

PepsiCo, the US food and soft drinks group, yesterday reported net income up 14 per cent in the third quarter led by strength in the soft drink and restaurant divisions.

It posted profits of \$616.8m on sales of \$7.7bn compared with profits of \$541.4m on sales of \$7.1bn in the same period last year. Earnings per share were 77 cents compared with 68 cents in 1994.

PepsiCo shares lost 3 1/4 at \$51 1/4 in early trading, although earnings came in a cent ahead of the median analyst forecast. Since the start of September, however, the shares have gained nearly \$7.

Growth was particularly strong in international drinks where operating profits increased 12 per cent to \$118m in the last quarter, as volumes grew by 40 per cent in Brazil, India and China.

Volumes were lower in Mexico as a result of the sharp recession there. In the US operating profits rose 8 per cent to \$342m, helping overall profits in that division to rise 9 per cent to \$482m.

Gains at Pizza Hut and KFC (formerly Kentucky Fried

Chicken) offset another quarter of losses at Taco Bell, lifting profits in the restaurant division 16 per cent to \$254m.

Earnings in the snack food division continued to be hampered by the crisis in Mexico, which was PepsiCo's most important international market. Operating profits for international snack foods slipped 18 per cent to \$68m.

Overall, however, a 7 per cent increase in domestic snack food profits helped the division to profits of \$288m, up 1 per cent on last year. Volume growth of US-based snacks outstripped profit growth at 11 per cent because of investment in new products and distribution methods.

PepsiCo's line of "Better for You" products contributed nearly half of the US volume growth as sales of fat-free pretzels, baked corn chips and salsa rose more than 20 per cent.

The company is proceeding with its share buy-back programme, having purchased 9.5m shares this year as of Monday. That represents about 1 per cent of the total shares outstanding. PepsiCo said it intended to buy 1 per cent to 2 per cent of outstanding shares in each of the next two years.

## Marlboro exports lift Philip Morris

By Tony Jackson in New York

Strong international sales of Marlboro cigarettes helped Philip Morris, the branded goods manufacturer, to increase earnings 17 per cent in the third quarter to \$1.4bn. Earnings per share, boosted by a \$6bn stock buy-back programme, were up 20 per cent at \$1.71.

Operating profits from domestic tobacco were up 13 per cent at \$972m on sales 1 per cent higher. The company attributed the rise in margins to a price increase in the second quarter, a return to premium brands and higher productivity. US cigarette volume, at 56bn, was down 2 per cent, compared with a 3 per cent decline for the industry.

Marlboro volume was up 0.3 per cent at 36.5bn, giving the brand a claimed market share of 30.6 per cent against 29.1 per cent the year before.

International tobacco made \$949m in operating profit, a rise of 19 per cent, on sales up 15 per cent. Volume was up 12 per cent to 461bn cigarettes, with volume in eastern Europe up 46 per cent. France suffered a drop in volume after a price increase on August 1. The com-

pany claimed to have increased market share in countries including Germany, Italy, Japan, Korea and Argentina. It recently announced plans to expand capacity at its plants in North Carolina and Kentucky, chiefly to serve overseas markets.

The food business worldwide made operating profits of \$907m - up 7 per cent - on sales up 4 per cent. In North America, Kraft Foods made \$621m profit, again up 7 per cent on higher volume and lower costs after rationalisation. Volume was up in drinks, processed meat and coffee, but down in breakfast cereals.

In western Europe, food volume slipped on weak demand and increased competition in coffee, confectionery, cheese and grocery products. In developing markets, volume was higher.

Miller beer made operating profits of \$119m, up 7 per cent on sales up 2 per cent at a flat market. Beer volume was up 1 per cent at 12.2m barrels, mainly from Miller Lite and Red Dog in the US.

Philip Morris's shares, which have risen strongly since early September, fell 3 1/4 to \$84 1/4 in early trading.

## Citibank bucks trend with 2% decline in profits

By Richard Waters

A group of big US banks, led by Chemical Banking, posted further strong profit gains in the third quarter, aided by renewed borrowing by consumers and the effects of recent cost-cutting efforts. Citibank, meanwhile, recorded a 2 per cent decline in reported profits for the period on a higher tax charge.

Citibank's overall results disguised continued growth in its retail banking operations, particularly in emerging markets. After-tax profits from retail branch banking and credit card operations in emerging markets jumped 20 per cent to \$301m, due mainly

to expansion in Asia. The consumer businesses in the developed world recorded net income of \$321m, a gain of 6 per cent.

Profits from its worldwide wholesale banking business, however, fell 19 per cent to \$351m. The result reflected a provision for credit losses of \$86m, compared with recoveries of \$80m a year earlier.

Overall, net income amounted to \$877m, or \$1.62 a share, compared with \$844m, or \$1.57, a year before. The group's tax rate rose from 29 per cent to 37 per cent.

Citibank's shares edged on the news, dropping \$1 1/4 to \$72 1/4. At that level, they are 75 per cent higher than at the

beginning of the year, the most dramatic advance of any big US bank.

Citibank said it had repurchased \$700m of its own shares in the latest quarter, at an average price of \$65.80.

Chemical, meanwhile, beat expectations with a 9 per cent advance in after-tax profits to \$477m, or \$1.70 a share. The results partly reflected an 11 per cent jump in loans outstanding to \$68bn. That more than offset the effect of lower lending margins, with the net yield on interest-earning assets falling from 5.63 per cent to 5.34 per cent.

Non-interest income fell slightly to \$97m, in spite of a jump in corporate finance fees,

which rose 62 per cent to \$157m. Like Chase Manhattan and J.P. Morgan, which have already reported results, Chemical benefited from strong US syndicated loans and corporate bond markets. This was partly offset by a \$36m loss on the sale of some developing market loans.

Chemical's non-interest expenses fell 4 per cent to \$1.3bn, partly reflecting the reduction in premiums paid to the Federal deposit insurance scheme, a factor which has underpinned other banks' earnings in the latest quarter. The group said it was on track to hold its expenses for 1995 to the year-earlier level, or even to reduce them.

Chemical was also aided by a lower tax rate of 40 per cent, compared with 41.5 per cent a year before.

Among other banks to report yesterday, Banc One registered a 22 per cent jump in after-tax profits to \$331m, or 93 cents a share. The Ohio-based regional banking group said loans and leases averaged \$99bn in the period, up more than 13 per cent from a year ago.

Banc One was unusual among US banks in recording a net interest margin of 6.39 per cent, up from 5.26 per cent a year before. That reflected a shift to more profitable consumer lending, as well as the repricing of some fixed-rate loans at higher rates.

## DURBAN ROODEPOORT DEEP, LIMITED

Registration No. 010092606 Incorporated in the Republic of South Africa ("Durban Deep")

## Salient dates of the rights offer

## Introduction

Further to the announcement dated 16 October 1995, regarding the terms of the rights offer whereby 2 640 000 linked units ("the linked units"), will be offered to ordinary shareholders of Durban Deep and holders of Durban Deep share warrants to bearer, Rand Merchant Bank Limited and Societe Generale Strauss Turnbull Securities Limited ("SGST") are authorised to announce that:

- application has been made to The Johannesburg Stock Exchange ("the JSE") for a listing of the non-renewable (nil paid) letters of allocation to be issued in terms of the rights offer ("the letters of allocation") from Monday, 23 October 1995 to Wednesday, 15 November 1995, both dates inclusive;
- application has been made to the JSE for listings of the 2 640 000 convertible fixed rate (5%) preferred ordinary shares and 2 640 000 options to subscribe for one ordinary share per option ("the preferred ordinary shares and the options") together the linked units) from Thursday, 16 November 1995; and
- application has been made to the International Stock Exchange of the United Kingdom and the Republic of Ireland Limited ("the LISE") for the preferred ordinary shares and the options to be admitted to the Official List. It is expected that conditional dealings in the linked units (nil paid) will commence on the LISE on Monday, 23 October 1995 and it is expected that admission will become effective and that unconditional dealings in the linked units (nil paid) will commence on the LISE on Friday, 27 October 1995. It is expected that separate dealings in the preferred ordinary shares and the options will commence on the LISE on Monday, 20 November 1995. The letters of allocation and other requisite documentation will be lodged with the South African Registrar of Companies and will be delivered to the UK Registrar of Companies.

## Salient dates:

- Record date to determine those Durban Deep ordinary shareholders entitled to participate in the rights offer (16:30 in South Africa and 15:30 in the United Kingdom) Friday, 20 October
- Listing of the letters of allocation commences on the JSE (09:30) Monday, 23 October
- Conditional dealings in the linked units (nil paid) commence on the LISE (08:30) Monday, 23 October
- Rights offer opens on the JSE and on the LISE (09:30 and 08:30 respectively) Friday, 27 October
- Unconditional dealings in the linked units (nil paid) commence on the LISE (08:30) Friday, 27 October
- Last day for dealing in the letters of allocation on the JSE (14:30) Wednesday, 15 November
- Last day for dealing in the letters of allocation on the LISE (14:30) Wednesday, 15 November
- Listing of the preferred ordinary shares and the options commences on the JSE (09:30) Thursday, 16 November
- Listing of the preferred ordinary shares and the options commences on the LISE (14:30 and 12:30 respectively) Thursday, 16 November
- Listing of the preferred ordinary shares and the options commences on the LISE (14:30 and 12:30 in the United Kingdom) Friday, 17 November
- Dealings in the preferred ordinary shares and the options (fully paid) commence on the LISE (08:30) Monday, 20 November
- Last day for receipt of postal applications (14:30 in South Africa and 12:30 in the United Kingdom) Wednesday, 22 November
- Share certificates in respect of the preferred ordinary shares and options posted on or about Monday, 27 November

## Notes:

- Any changes to the above dates will be published in the press.
- Documentation
- The rights offer circular, together with the letter of allocation, is to be posted to ordinary shareholders of Durban Deep on Friday, 27 October 1995. Copies will be available for inspection at the registered office of Durban Deep, Main Reef Road, Florida, Johannesburg and at the office of Vauduc Corporate Services Limited, 19 Charterhouse Street, London, EC1N 6QP from Friday, 27 October 1995 up to and including Friday, 17 November 1995. Sandton, 18 October 1995

Merchant bank



RAND MERCHANT BANK LIMITED

(Registration Number 68/1988/06) Registered Bank

International financial adviser and underwriter



INTERNATIONAL COMPANIES AND FINANCE

# Italy imposes 3% ceiling for stakes in Eni sell-off

By Andrew Hill in Milan

The Italian government has set a ceiling of 3 per cent on individual stakes in Eni, the state-owned energy and chemicals company which should be partially privatised before the end of this year.

The treasury, which owns all Eni's shares, introduced new safeguards for small investors at a special Eni shareholder meeting late on Monday. They include Italy's first "golden share", introduced under 1994 rules aimed at protecting companies in strategic Italian industries.

Eni also confirmed it would seek a listing for its shares on the New York Stock Exchange. Three other state-controlled or former state-controlled companies are already listed on Wall Street: Imi, the banking group; Ina, the insurer; and Stet, the telecoms holding company which should be fully privatised next year.

The treasury, which aims to sell between 10 per cent and 15 per cent of Eni, is trying to send a strong signal, especially to potential international investors, that the flotation will not be marred by a lack of transparency or undue influence of large shareholders.

The new measures - similar to those introduced for last year's partial privatisation of

Ina - seem particularly aimed at preventing Mediobanca, the Milan merchant bank, and its principal corporate allies, from establishing a dominant position at Eni.

International investors were irritated by the way in which Mediobanca's allies achieved effective control of Credito Italiano and Banca Commerciale Italiana by buying up small stakes in the 1993-94 privatisations.

The "golden share" rules will for the first time give the treasury the power to reject shareholders who want to buy a full 3 per cent stake, and to veto important decisions, such as mergers or disposals.

As at Ina, the rules will also treat the shares of investors which are already linked in other companies' shareholder syndicates, as though they belong to a single shareholder.

In addition, the Eni board will be elected using a list-voting mechanism, which reserves some directors' seats for small shareholders' nominations, and postal voting will be introduced.

But the size of the Eni issue - it could be the biggest share placement ever - and the fact that the treasury will retain a large majority stake, are themselves likely to limit shareholders' ability to take effective control of the company.

## RCS delays meeting

By Andrew Hill

RCS Editori, the loss-making Italian publishing and media group, yesterday postponed the board meeting called to consider an increase in capital and to examine its difficult financial situation.

Gemina, the investment company which owns 93 per cent of RCS, said it had asked the publishing company to delay yesterday's meeting to give Gemina's new directors time to look at the group's position.

Gemina reshuffled its board at a late-night emergency meeting on Friday, appointing a new three-man executive

committee, in what seemed to be an attempt to ward off further judicial inquiries into the mounting losses at RCS.

In a characteristically brief press release issued last night, Gemina said the aim of the postponement was "to supply the market, before November 20 1995, in a single context, with an overall picture, which will take account of the amount necessary for the forecast recapitalisation of RCS".

The announcement could further exasperate Italian stock market regulators, who have attacked Gemina for its failure to provide adequate information about RCS.

# Thomson may be privatised next spring

By John Riddling in Paris

Thomson, the French electronics and defence group, could be privatised in the spring of 1996, according to a finance ministry report which has been submitted to the National Assembly.

The report also mentioned Jeanque Hervet as a candidate for sale next year and confirmed plans to sell Assurances Générales de France once shares in the French insurer have recovered.

France's conservative government is aiming to achieve receipts of some FF42bn (\$4.4bn) from the sale of public

sector companies next year, following a target of FF40bn for 1995.

Unlike under previous French governments, the proceeds will not be used to cut directly the budget deficit, but will be used to reduce the public sector debt and to finance capital injections for state companies.

Since taking office in May, the government of Mr Alain Juppé, the Gaullist prime minister, has already privatised Urfinor Satiol, the steel giant.

Including the sale of Setra, the tobacco group which was privatised under the previous government earlier this year,

total receipts for 1995 have so far reached more than FF17bn.

Further issues expected this year include Pechiney, the aluminium and packaging concern, and Renault, the automotive group which was floated at the end of 1994.

The full privatisation of the motor vehicle manufacturer, however, has been delayed by a sharp fall in its share price and gloomy prospects for the French and European car industry.

The sale of a stake in Caisse Nationale de Prévoyance, the life insurer, is also possible by the end of the year.

Some industry observers also believe that the government may seek to float a stake in Framatome, the nuclear power technology group.

Thomson was among the 21 companies slated for privatisation by the previous government of prime minister Mr Edouard Balladur. However, the operation has been complicated by the structure of the group, which includes consumer electronics, multimedia and defence activities.

Thomson also has a shareholding in SGS-Thomson, the Franco-Italian semiconductor manufacturer.

The sale of the group may

also depend on government decisions concerning the restructuring of the country's defence industry.

Many observers regard this as necessary to increase the efficiency of French arms manufacturers and to strengthen their competitiveness against international rivals.

Other possible candidates for sale include Crédit Lyonnais, the banking group which has undergone a radical rescue programme, and Air France, the loss-making national airline.

Neither company is seen as a candidate for rapid sale, however, partly because of ongoing restructuring measures.



Alain Juppé will use proceeds to reduce public sector debt

# Contender powers up for semiconductor wars

John Riddling on the SGS-Thomson strategy for a fast-looming sectoral showdown over market share

On the outskirts of Marseilles, the sprawling port city in southern France, work will start shortly on a new semiconductor plant for SGS-Thomson. The first chips are due to roll out of the factory at the beginning of 1996, after a total investment of about FF4bn (\$500m).

The project reflects the growth being enjoyed by the world semiconductor industry and the ambitions of SGS-

Thomson, one of the leading European contenders in the field. It also helps explain why the Franco-Italian group has launched a share issue, worth an estimated FF4bn, its second in the market within a year.

If the need for funds in the capital-hungry industry is clear, questions remain for prospective investors.

The most important relate to the attractions of the public-sector company - something of an oddity in an industry dominated by privately-owned US and Japanese rivals - and to the prospects for the traditionally cyclical and volatile markets in which it is competing.

For many observers, the attractions of SGS-Thomson are demonstrated by its record and financial results in recent years. Since its formation in 1987 through a merger between Thomson Semiconductors of France and SGS Microelectronics of Italy, the combined company has rapidly transformed itself from a heavily-indebted

industry laggard which was losing market share in the face of its rivals' competition. Profit more than doubled to FF33m last year while figures released last week showed further strong growth in 1995 with an increase in net earnings from FF23m to FF38m for the first nine months.

In terms of market share, SGS-Thomson has climbed to 13th place and is in striking distance of the top 10.

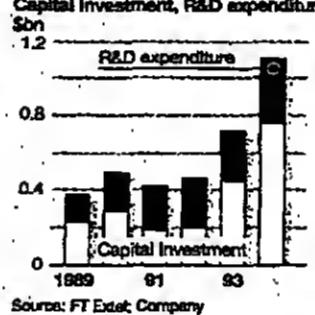
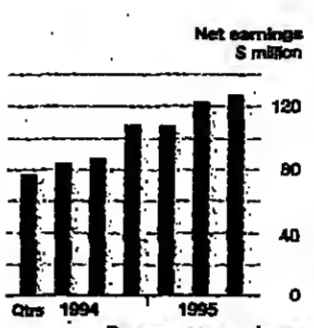
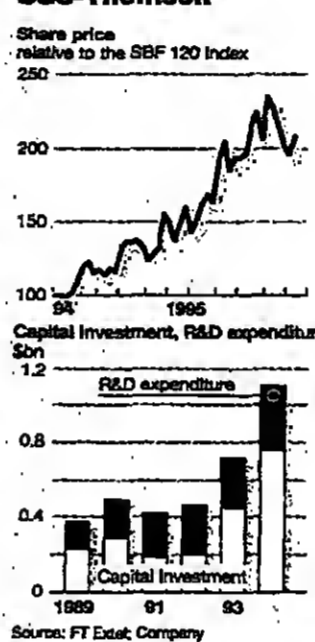
The reasons for such growth range from the boom in the industry to restructuring and productivity programmes implemented by Mr Pasquale Pistorio, the Italian chairman who has run SGS-Thomson like a private sector concern.

They have targeted high growth markets such as semiconductors for telecoms and the auto sector, says Mr Bill McClean, vice-president of Integrated Circuit Engineering, the Arizona-based research and consultancy group. "They have become a formidable competitor," he adds.

Investors appear to agree. SGS-Thomson's shares have surged, climbing from FF119.95 at their issue on the Paris and New York stock markets last December to FF221 yesterday.

"It has been an astonishing performance," says one industry analyst at a French securities company. "But investors need to know whether the party is drawing to an end." For the industry at least, some

## SGS-Thomson



believe it is. "We are nearing the peak of the market," says Mr McClean.

Part of the reason is an increase in capacity, illustrated by SGS-Thomson's new plant, but widespread across the industry. "There are 15 companies trying to get 10 per cent of the market and that will ultimately create problems," says one analyst. He predicts the slowdown will be clearly felt by 1997.

But other observers stress that the semiconductor market has become less cyclical and few expect the downturn to be abrupt.

ICE and other market research groups forecast growth of about 20 per cent in 1996. They also admit to difficulties in accurate predictions, pointing to the fact that expected semiconductor sales of more than \$130bn this year are much higher than originally expected.

SGS-Thomson has some advantages in responding to increased competition and tighter margins in the event of a downturn. Although outside the top 10 in the industry, it has a dominant position in certain market segments.

With annual sales of more than \$1bn, it is the world's largest player in the analogue semiconductor market, which supplies chips for a range of industries from telecommunications to the automotive and audio industries - and which is relatively resilient to market swings.

By contrast, SGS-Thomson is not present in the market for DRAMs, commodity memory chips which have benefited most from the current industry boom, but which are the most volatile segment of the market.

The Franco-Italian group has a relatively diverse geographical base, having expanded its presence in the US market. It has a strong position in mixed signal devices and chips for consumer smart cards and in high growth areas, such as Flash memory chips, which are reprogrammable within an electronic system.

More recently, it has made an aggressive push into the microprocessor market.

Earlier this month the company said it planned to produce the M1 microprocessor - developed by Cyrix of the US, and a competitor to Intel's Pentium device - by the middle of next year. "It is a good market

to get into," says one US analyst, "although the competition against Intel will be very tough."

Like many analysts believe that SGS-Thomson's current share issue holds attractions. "Despite the rise in the price, the shares are still on a multiple of about 12 times expected 1996 earnings," says one Paris analyst.

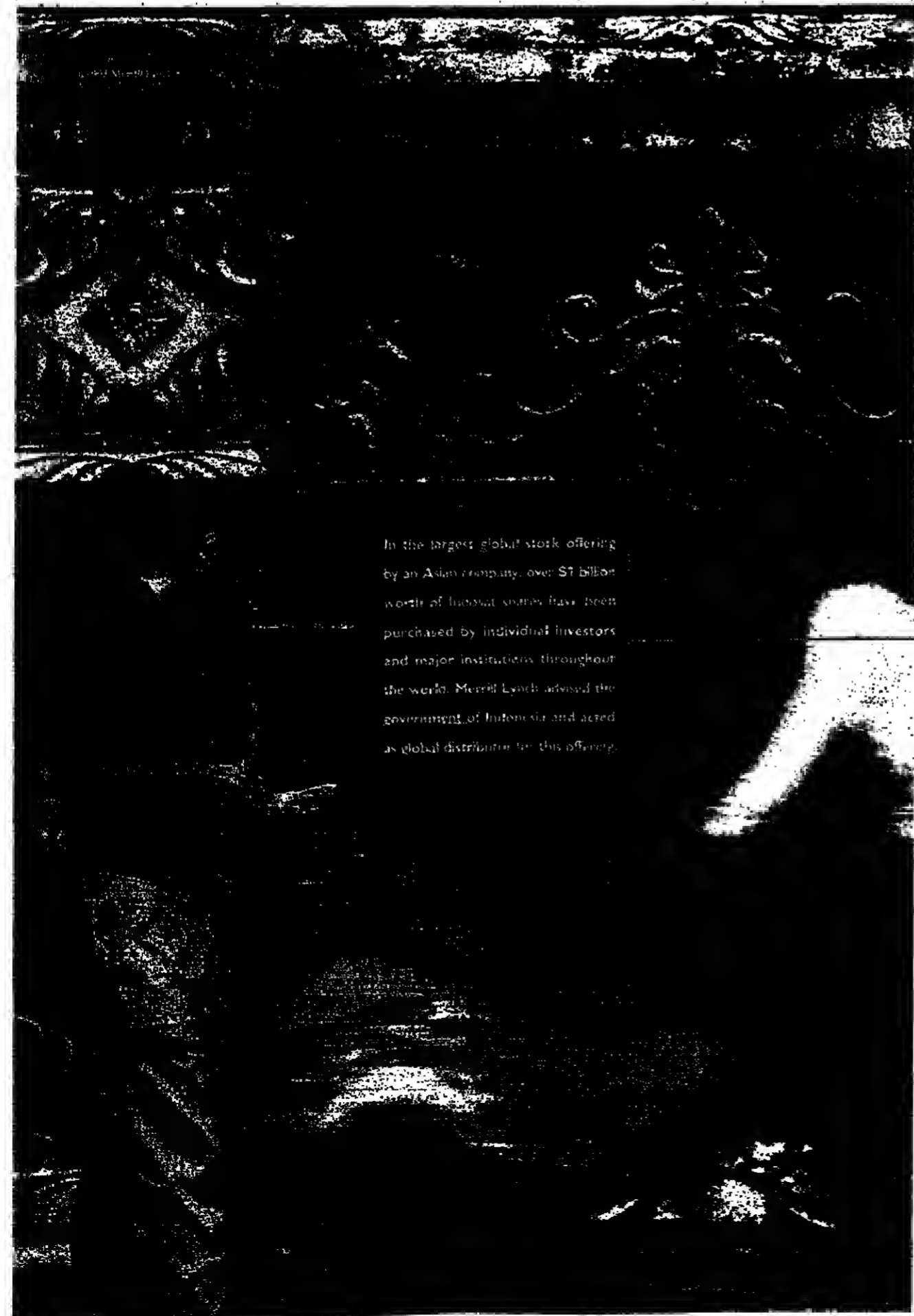
Mr René Thomas at Cholet Dupont estimates that earnings per share will be slightly diluted in 1996, but emphasises the company's strong growth potential.

Others onlookers warn, however, that the sharp rise in SGS-Thomson's share price will be hard to sustain and that investors may be called on again in the future.

The heavy financial requirements of the industry and the fact that the French and Italian state shareholders lack the necessary funds suggests further capital raising operations, possibly tied to an ultimate privatisation.

"The fight for market share is an expensive business. But it will determine the winners and losers in the international semiconductor market," says one industry executive.

As the new plant near Marseilles suggests, along with a steadily rising investment programme, the message has not been lost on the Franco-Italian contender.



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Usiminas is Brazil's largest producer of uncoated steel products. Usiminas' net income in 1994 was US\$ 344 million on total sales of US\$ 1,832 million.

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Açominas is Brazil's second largest producer of common flat steel semi finished products, with total sales in 1994 of US\$ 536 million.

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In accordance with the Terms and Conditions of the Notes, notice is hereby given that, pursuant to paragraph (C)(11) "Redemption Amount" of Condition 5, "Redemption and Purchase", the Redemption Amount applicable upon redemption of each Note will be:

FRF 125,652: per denomination of FRF 100,000  
FRF 125,652: per denomination of FRF 100,000  
calculated by applying the following formula:

$$P \times (1.25\% \times C)$$

provided that in no event shall the Redemption Amount be less than the principal amount of the Note, nor greater than 100% of the principal amount of the Note.

where:

"P" = FRF 100,000 and FRF 100,000 (the principal amount of each Note)  
"C" = FRF 921 (the arithmetic mean of the quoted share prices on the Paris Stock Exchange of one Share as of 11:00 am and 3:00 pm (Paris time) on October 10, October 11 and October 12, 1995)  
"CO" = FRF 750,000,000 as adjusted on July 6, 1994

Payment of principal will be made on October 24, 1995 in accordance with Condition 6 "Payments" of the Terms and Conditions of the Notes.

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## INTERNATIONAL COMPANIES AND FINANCE

# Russian oil privatisation plans stir controversy

By John Thornhill in Moscow

Russia's privatisation agency has announced plans to sell the state's shareholding in some of the country's most prized oil companies over the next two months. However, the speed of the process and restrictions on foreign participation have raised doubts about the level of demand.

The government is committed to selling packages of shares in several of Russia's biggest oil companies, including Sidanco, Lukoil, and Yukos, in a series of tenders by the end of the year. But its programme immediately ran into controversy with some of the companies concerned.

Sidanco, which owns extensive reserves in Russia's far east, yesterday expressed dissatisfaction with the proposed

sale of 51 per cent of its shares and said it would not co-operate in the process. Oil companies fear unfriendly Russian banks might acquire a stranglehold on their businesses and there is speculation some managers will buy up shares on their own behalf to entrench their control.

The agency said it would auction 5 per cent of Lukoil's shares on November 17 as part of a controversial scheme in which groups of Russian banks will loan the government money in return for holding the shares in trust and benefiting from any capital increase over the next three years.

The \$35m starting price for the Lukoil auction appears to have been set well below the prevailing market price, suggesting the government does not expect strong demand. The

sale of 51 per cent of its shares and said it would not co-operate in the process. Oil companies fear unfriendly Russian banks might acquire a stranglehold on their businesses and there is speculation some managers will buy up shares on their own behalf to entrench their control.

Given the prohibition on foreigners becoming involved, the people most likely to buy shares in the oil companies are the Russian banks. But they would not appear to have that much money following the liquidity problems on the inter-bank market, said Mr Stephen O'Sullivan, Russian oil industry analyst at MC Securities, the London-based investment bank.

Separately, Lukoil, which accounts for 15 per cent of the country's crude output, yesterday announced it would offer 16 per cent of its shares in an investment tender later this year to raise money for re-equipping its refineries in Perm and Volgograd.

## An upwardly mobile investment

Investors frustrated with the marginal price movements of leading shares on most European stock exchanges can always turn to Vienna.

So far this year, an investor could have hidden Maculan, a once high-flying construction group, down from a high of Sch905 to a recent low of Sch185.

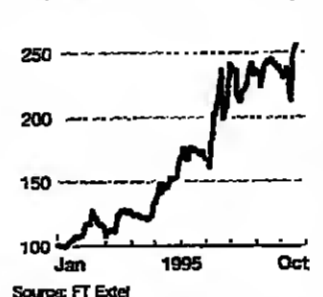
Or they could have bought Austria Mikro Systeme International (AMS), a maker of specialised microchips, for a very different result. At the beginning of the year AMS shares were trading at about Sch320 - now the investor would be looking at a value of Sch1,840.

The key to the excitement about AMS is the booming mobile telephone market. The company is a leading maker of custom designed microchips for all types of mobile telephones, and has seen its business soar since going public at Sch336 per share a little over two years ago.

It also makes chips for other growing uses, such as trigger-

### Austria Mikro Systeme

Share price relative to the  
WB Index  
300



Source: FT Edit

ing air bags in cars and reading bar codes at supermarket check-outs.

Its sales have risen from Sch724.6m in 1992 to Sch1.1bn (\$110m) last year while earnings per share doubled from Sch25 in 1993 to Sch53 last year and are forecast to double again this year to Sch119.

In the first half, AMS lifted sales 66 per cent to Sch514m and net profit more than doubled from Sch45m to Sch102m. AMS, formerly a small part

of the sprawling state-owned Voest-Alpine group, has been as surprised as everyone else by this rapid growth.

At the beginning of the year, Kleinwort Benson, the group's international financial adviser, was still forecasting only Sch44 a share for 1994 and Sch53 for 1995.

Growth is now being held back by the lack of production capacity, which the group has addressed by acquiring controlling interests in two competitors, one in eastern Germany, the other in South Africa.

In the next few days, it intends to launch a one-for-five rights issue on the 2.5m shares outstanding to finance these investments. The move could bring some earnings dilution next year, but investors still remain upbeat.

The shares are now widely held, mainly by US and UK investors. AMS is one of only two former Austrian state-owned companies in which the state did not retain a residual stake following flotation.

Ian Rodger

## Linotype warns of full-year loss

By Andrew Fisher in Frankfurt

Linotype-Hell, the German manufacturer of pre-press equipment for the printing industry, said yesterday it would incur a loss this year after business had failed to recover from a slow start.

It plans to cut its German workforce by up to 300 by mid-1996 from the present 2,450, in line with the reduced sales volume.

Together with new products and an improved dealer network, Linotype said this should improve business in the medium term.

The news pushed the compa-

ny's shares down by 3.6 per cent to DM163.

This followed Monday's fall of 15.5 per cent to DM169 on reports that a capital restructuring was planned.

Linotype again denied this "vehemently" yesterday and said its capital structure was healthy, with equity comprising 50 per cent of its balance sheet.

The company, in which Siemens has a 33.3 per cent stake, said it had hoped to make a profit in 1995 after a net profit of DM5.2m (\$3.66m) in 1994. But this now no longer looked possible.

It has already warned that a

dividend payment for this year was unlikely - the last payment was made in 1992 - after incurring a net loss of DM13.9m in the first half against DM11.9m in the same period of 1994. Turnover was down by 10 per cent to DM446m.

The company said its poor performance reflected the failure of orders to pick up after the industry trade fair in May. Customers' reluctance to purchase equipment was especially marked in the dollar area as a result of the strong D-Mark.

Some 70 per cent of its business is with foreign customers.

## EUROPEAN NEWS DIGEST

# Audi sees doubled profits for year

Audi, the up-market German car company, expects to more than double its pre-tax profits this year from the DM187m (\$131.7m) of 1994. This was stated by Mr Herbert Demel, chief executive of the Volkswagen subsidiary, as it reported a 30 per cent rise in sales in the first nine months to DM12.3bn.

Production was 39 per cent higher at 328,300 vehicles, with deliveries to customers up by 21 per cent to 339,240.

The positive trading news was in line with the upbeat tone sounded by Audi this summer when it said profits would rise sharply. It is benefiting from new models, improvements to existing models, and better productivity and cost controls.

Audi said yesterday its main growth had been in Germany, with a rise of 37 per cent in car deliveries to 158,200; its market share rose to 8.3 per cent in the first nine months from 5 per cent in the same period of last year.

In the rest of western Europe, deliveries were only 5.4 per cent higher at 129,000. Unit sales increases of more than 20 per cent were achieved in Japan and the US.

Andrew Fisher, Frankfurt

## Bank losing 'fewer traders'

Germany's Deutsche Bank expects to lose fewer New York derivatives traders to rival Westdeutsche Landesbank than the 11 announced this week.

Playing down the move, Deutsche Bank said it expected the impact to be minimal. The number of traders leaving for WestLB, which is building up its investment bank activities, would be "less than 10". Mr John Stonhor, who heads the swaps business in New York, is not leaving Deutsche Bank, which has integrated its investment banking activities under the name of Deutsche Morgan Grenfell.

The loss of traders to WestLB, and the move of several analysts in Frankfurt to other German banks and corporations, reflects the cultural pressures involved in putting the two sides together, banking sources said. In the reverse direction, Deutsche Morgan Grenfell has hired about 50 people from Warburg, now part of Swiss Bank Corporation, and has just taken on Mr Saman Hajd from Salomon Brothers as global head of fixed income derivatives. It is also hiring Mr Gopal Varadhan from Canadian Imperial Bank of Commerce as senior derivatives trader in New York.

Andrew Fisher, Frankfurt

## MAN commercial arm recovers

MAN Nutzfahrzeuge, the commercial vehicle unit of Germany's MAN, recorded a net profit of DM157.4m (\$110.9m) in the year to June 30, following a loss of DM97.5m the previous year.

Sales rose 5 per cent to DM7.74bn while new orders advanced by 14 per cent to DM7.7bn. "We assume we will make a satisfactory profit in 1995-96," the company said in its annual report.

It said truck demand from European markets was brisk and other foreign markets were also on an upward trend. Domestic demand was stabilising at a high level.

The company's bus business, however, had seen sales shrink.

Agencies, Munich

## Chinese move for Club Med

Club Méditerranée, the France-based leisure group, has been awarded the contract to manage a new holiday village in south-western China.

Straits Steamship Land, a Singapore-based company, said yesterday it had awarded the management contract to Club Med for its Spring City Lake 20 hectare tourist site which is 36km from Kunming, the capital of the state of Yunnan.

The contract ties with Club Med's strategy to expand rapidly in Asian destinations, and to operate increasingly through management agreements rather than directly owning all the villages it runs.

Andrew Jack, Paris

## Endesa forecasts 12% rise

Endesa's group net profit is expected to increase 12 per cent in 1995 from the Pta132.7bn (\$1.08bn) achieved in 1994, Mr Feliciano Fuster, the chairman, said.

In the first half, the Spanish electricity utility posted net profit of Pta72.9bn, up from Pta64.7bn in the year earlier period. Mr Fuster, speaking at a parliamentary commission, said Endesa expected to invest 85 per cent of the total Pta230bn it initially forecast for 1995.

He added that investments were expected to fall to Pta180bn in 1996, to Pta151bn in 1997 and Pta109bn in 1998.

For 1996, Mr Fuster said electricity demand was expected to rise 3 per cent from 1995.

AFX News, Madrid

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## INTERNATIONAL COMPANIES AND FINANCE

# Weak demand drags on Japanese retailers

By Emiko Terazono in Tokyo

Natural disasters, terrorism and stubbornly sluggish consumer demand affected Japanese retailers in the six months to August, although companies which undertook aggressive restructuring programmes were rewarded with positive results.

Retailers in western Japan continued to suffer the effects of the Kobe earthquake in January, while gas attacks on the Tokyo subway kept some shoppers away from stores in the capital for a while.

The prolonged recession continues to be a drag on consumer confidence: last month, overall department store sales declined year-on-year for

Japanese retailers (Ybn)				
	Sales	Change on year (%)	Recurring profit	Change on year (%)
Mitsukoshi	369.8	-2.7	1.1	+70.8
Takashimaya	346.2	+1.2	2.7	+180.0
Daimaru	245.3	-8.1	0.6	-41.0
Matsuzakaya	209.0	-2.8	0.9	+24.0
Daisai	1,259.3	-0.4	12.0	+7.1
Ito-Yokado	754.8	+0.4	40.6	-3.3

\* Before extraordinary items and tax

Source: Company reports

the 43rd consecutive month.

Department stores have seen profits plunge over the past few years due to the spread of discounting and a slump in demand for luxury goods, but cost-cutting has recently resulted in a rebound in earnings.

Retailers, reliant on orders from corporate clients, have

also suffered from the earnings

downturn of Japanese companies.

Mitsukoshi posted a sharp rise in non-consolidated profits due to cost cutting and efforts in jointly developing merchandise with Daimaru, another department store. In spite of the earnings rise, the company will pass its interim dividend

payment because it expects a weak second half.

Takashimaya's earnings were supported by a ¥1.9bn (\$18.9m) cut in personnel and advertising costs. Unconsolidated net profit rose 59.1 per cent to ¥2.1bn, with per share net earnings rising from ¥5.96 to ¥9.49. For the full year to end-February, it expects sales to rise 25.6 per cent to ¥800bn and recurring profits - before extraordinary items and tax - are forecasted to quadruple to ¥8.5bn.

Daimaru was forced to skip its interim dividend payment due to its half-year profit plunge. Sales were hurt by earthquake damage at its Kobe store. For the full year, current profits are expected to drop 34.6 per cent to ¥2.5bn, on a 4.6

per cent decline in sales to ¥497bn. It plans to cut 300 jobs through hiring restraints and attrition by August next year.

Daisai, the country's largest supermarket chain, also suffered the effects of the earthquake. The company, based in Kobe, posted an extraordinary loss of ¥20.3bn from sales of securities to offset a special loss of the same amount stemming from the liquidation of its subsidiaries.

In spite of its decline in non-consolidated earnings, Ito-Yokado, another supermarket chain, said it expected a rise in both recurring profits and sales for the full year. Current profits are expected to rise 6.6 per cent to ¥90bn, on a 1.8 per cent increase in sales to ¥1,550bn.

# Coles Myer saga enters its final throes

Questions over governance and boardroom changes could soon be resolved, reports Nikki Tait

The air of an end-game is beginning to hang over Coles Myer, Australia's largest but controversy-dogged retailer.

Last week, three big institutions refused to be pacified by the group's offer to turn itself into a handful of separately-listed companies, insisting boardroom changes and corporate governance issues be addressed first.

Within days, the two founding families - the Myers and the Coles - had supported this stance, as had the Australian Investment Managers Association, which represents most of the country's big fund management groups.

The uncertainty could rumble on until the company's annual meeting on November 21, when directors come up for re-election.

Mr Solomon Lew, Coles chairman, has showed no willingness to cede his role to an independent candidate - one of the institutions' main demands. On Monday, he counter-attacked, aiming much of his anger at the AMP Society, Australia's biggest life office: "If the AMP had any credibility they'd sack their investment managers for poor performance," he snapped.

However, some believe the issue could be resolved before the annual meeting. This view appears to have taken hold in the stock market, with Coles shares rising to about A\$4.50 on growing speculation that institutional demands will be met.

Like most corporate traumas, this one derives from a swell of disquiet which has built over a number of years. No one, however, underestimates the importance of the outcome.

Australia's institutional investors are anxious to see their financial markets shed the cowboy image acquired in the late 1980s. They opposed Mr Rupert Murdoch's News Corporation over differential voting rights two years ago and instigated extensive board changes at Goodman Fielder, the large but poorly-performing food manufacturer, in 1994.

In addition, as Mr Alan Cameron, chairman of the Australian Securities Commission, noted: "There has been an extraordinary focus on corporate governance in the past two-and-a-half years."

However, unlike News and Goodman, Coles is headquartered in clubby Melbourne and Mr Lew holds a formidable 13 per cent stake. Prima facie, it is the toughest target the institutions have yet confronted.

The Coles saga goes back to 1985, when G. J. Coles and The Myer Emporium merged to create an Australian retailing group accounting for almost 20 per cent of national sales. Both were established family businesses. But at Coles, management and control had steadily passed out of the family's hands in the 1970s and 1980s, while Myer Emporium remained in the grip of the direct descendants of its founder.

After the merger, Brian Quinn, who had been running Coles, took charge of the combined entity. However, the Myer family remained a significant shareholder, with about 10 per cent, as did Solomon Lew, a Melbourne-based businessman.

Mr Lew had astutely snapped up a 10 per cent stake in Myer in the early 1980s and

### Coles Myer

Sales, A\$bn

Net operating profit, A\$m

Net debt to equity, %

Share price, relative to the All Ordinaries

Source: FT Econ

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## Improved sales behind surge at Shell's Philippine unit

By Edward Luce in Manila

Pilipinas Shell, the Philippine subsidiary of the Anglo-Dutch oil group, reported net profits of 690m pesos (\$26.6m) for the six months ending in June, up 133 per cent on a year earlier.

The opening of its oil refinery plant in Batangas, south of Manila, and improved sales accounted for most of the increase. Sales and other operating income rose 15.9 per cent to 18,740m pesos. However, Shell, which is the second largest oil refiner in the country after Petron, the privatised state group, said the company was continuing to lose money over the government's

deferral of an oil price increase. Shell is owed about 1bn pesos from the government's oil price buffer fund.

The company also announced yesterday that it would float 2bn pesos of long-term commercial paper in Manila before January 1996 to repay loans on the construction of its Batangas refinery. About \$67m of debt would be prepaid on the proceeds of the issue. The issue, to be offered in two tranches of four and five-year maturities respectively, will be the company's largest Philippine debt call. The four-year notes will be repaid at 0.625 per cent above the central bank's benchmark 81-day T-bills, while the five-year papers will give a 0.725 per cent return.

## Morgan Stanley arm opens Indian investment branch

By Mark Nicholson in New Delhi

Morgan Stanley Trust Company, the US bank and wholly-owned subsidiary of the Morgan Stanley Group, has opened its first overseas branch office in Bombay to offer custodial, clearing and related services to foreign institutional investors active in the Indian market.

MSTC said yesterday it would also enter a "strategic alliance" with the Stock Holding Corporation of India, one of India's biggest custodial agents which is owned by India's main state-owned financial institutions. The bank said its Bombay branch would qualify as an "eligible foreign custodian" to

provide custody and share settlement services for US investment companies according to US norms.

MSTC will become the 11th institution, both foreign and Indian, offering custodial services on India's stock markets, where slow paper-based settlements and registration procedures are among the chief structural impediments to the market's growth.

"One of the factors limiting foreign investment into the Indian stock market has been the capacity constraints of eligible foreign custodians," said Mr Pradip Darooka, vice-president responsible for Morgan Stanley's custody business in India. Mr Darooka will head the new branch.

### Caisse Centrale de Crédit Immobilier 3CI

£116,000,000  
 Floating Rate Notes 1996

Notice is hereby given that for the interest period 16 October 1995 to 15 January 1996 the notes will carry an interest rate of 7.06594% per annum.

Interest payable on 15 January 1996 will amount to £17.62 per £1,000 note.

Agent: Morgan Guaranty Trust Company

JPMorgan

Notice of Purchase

US \$100,000,000

Crédit National

Subordinated Collateral Floating Rate Notes due 2005

Pursuant to the Terms and Conditions of the Notes, notice is hereby given to the holders that during the six-month period ending October 18th, 1996, US \$100,000,000 have been purchased.

As of October 18th, 1996, the principal amount of such Notes remaining in circulation is US \$98,255,000.

Crédit National

Paris, October 18th, 1996

### BANK OF CEYLON

US\$12,000,000.00

Floating Rate Notes Due October 1996

In accordance with the provisions of the Floating Rate Notes, notice is hereby given as follows:

Interest Period: 16.10.95 - 15.04.96

Rate of Interest: 7.622% per annum

Capital Amount: US\$12,000,000.00

Issued by: Bank of Ceylon

London Floating Rate Note Limited

### NOTICE OF INTEREST RATE

To the Holders of Banco Central do Brasil New Money Bonds Due in 1999

In accordance with the provisions of the Bonds, notice is hereby given that the above Bonds will bear interest for the 182 day interest period from October 16, 1995 to April 15, 1996, at a rate per annum of 6%, as calculated in accordance with the terms of the above Bonds.

BANCO CENTRAL DO BRASIL, Issuer

### CRÉDIT NATIONAL

US\$100,000,000

Subordinated collateral Floating rate notes 2005

For the period 15 October 1995 to 15 April 1996 the notes will bear interest at 5.525% per annum.

Interest payable on 15 April 1996 will amount to US\$28.59 per US\$1,000, US\$28.59 per US\$1,000 and US\$7,148.44 per US\$250,000 note.

Agent: Morgan Guaranty Trust Company

JPMorgan

### CRÉDIT LOCAL DE FRANCE

FRF 750,000,000

REVERSE FLOATER BONDS DUE 2000

For the period October 16, 1995 to April 15, 1998 the new rate has been fixed at 7.01458% p.a.

Next payment date: April 15, 1996

Coupon: 7.5

Amount: FRF 348,78 for the denomination of FRF 10,000

FRF 3,487.81 for the denomination of FRF 100,000

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## Proposed merger with The Upjohn Company

*The application period to exchange shares in Pharmacia AB for new shares in Pharmacia & Upjohn, Inc. closes on Friday October 20, 1995.*

### The offer

Shareholders are reminded that they may exchange each share held in Pharmacia AB for one share in Pharmacia & Upjohn, Inc., on the terms more specifically set out in the offer document dated September 20, 1995.

Pharmacia's Board of Directors has recommended that shareholders accept the offer. Persons wishing to do so must complete the special application form sent out to all shareholders.

If, for some reason, you have not received the necessary documents, you should immediately contact your stockbroker or call (44) 171 600 5005 for more information.

This advertisement is issued by Pharmacia AB and has been approved by Morgan Stanley & Co. Limited, regulated by the Securities and Futures Authority Limited. In connection with the offer, Morgan Stanley & Co. Limited is acting for the Company and no one else and will not be responsible to anyone other than the Company for providing the protections provided to customers of Morgan Stanley & Co. Limited nor for providing advice in relation to the offer. If you are in doubt as to the action you should take, you should consult an independent financial advisor.

This offer is not being made in the United States or Canada or to either U.S. or Canadian persons or to holders of American Depositary Shares representing shares in Pharmacia AB. A corresponding offer has been made in the United States and Canada to such investors.

COMPANY NEWS: UK

# GEC defuses clash over Weinstock succession

By Bernard Gray, Defence Correspondent

The General Electric Company yesterday defused a row over how a successor to Lord Weinstock, managing director, should be chosen. Before yesterday's regular board meeting Mr Richard Reynolds, chairman of the company's GPT telecoms subsidiary, had opposed the way in which the succession was being handled, and had written to Lord Prior, GEC's chairman, about the issue.

Mr Reynolds is thought to have repeated his objections over the amount of information being supplied to directors at yesterday's meeting. However, he failed to gather the support of other directors, who backed the approach to finding a successor being led by Lord Prior.

The board then agreed to continue with the current approach to deciding the succession, with a view to

announcing a replacement by the spring. Lord Prior has been assembling a shortlist of potential candidates to take over from Lord Weinstock, who is due to stand down from executive responsibilities when he reaches the age of 72 next summer.

The list is thought to include both internal and external candidates, with Mr Peter Gershon, managing director of the GEC-Marconi defence and electronics subsidiary, leading the internal candidates.

Possible external candidates are thought to include Mr George Simpson, chief executive of Lucas Industries.

Previously there had been suggestions that Mr David Newlands, GEC's finance director, and Mr Simon Weinstock, the company's commercial director, might also be candidates. However, neither is now thought likely to take over.

Contrary to prior speculation, Mr Reynolds' comments have not led to his resignation



Lord Weinstock: shortlist of candidates to replace him

as a director. "This is all a big non-event," said another board member after the meeting. His long-term future may still be in doubt, however, given the divisions which arose over the issue.

Lex, Page 14

## Sema plans £60m buy in France

By Christopher Price

Sema Group, the Anglo-French computing services concern, yesterday said it was in talks to acquire a French systems integration and outsourcing company in a deal thought to be worth about £60m (\$88m).

The purchase of Cisi, the computer services arm of the Commissariat à l'Énergie Atomique, the French government agency, will strengthen Sema's interests in the defence and space technology sectors.

Mr Pierre Bonelli, Sema chief executive, said: "Defence is a growing business for companies with our kind of technology, and particularly in the area of space research." Cisi, which is involved in developing simulation systems and data analysis software, has sales of about FRF1bn and net assets of FRF170m.

Mr Bonelli refused to disclose whether the group was profitable, but said that "coming from the public sector, it is not the most flourishing company in the world". The purchase excludes Cisi's Spanish interests.

Sema intends to finance the acquisition with its cash balances. At June 30 it had net cash of £24.7m.

## WD Wills warns of small loss

W.D. & H.O. Wills, the listed Australian cigarette manufacturer owned by BAT Industries, yesterday warned that its results for the nine months to September 30 showed a "small loss", and that it did not expect to reverse this in the final quarter, writes Nikki Tait.

Directors added that they did not expect to

propose a final dividend, after the reduced 3 cents interim. In 1994, Wills reported a fall in operating profits from A\$94.9m to A\$78m (\$28.2m) - blaming price discounting and higher tax for the decline.

Yesterday, Wills said some stability had returned to the competitive tobacco market.

## A promise of more of the same

Roderick Oram on the future for GrandMet after Lord Sheppard

For a company that seems to revel in reinventing itself, Grand Metropolitan's announcement of a new chief executive and management structure was very orderly and tame.

Lord Sheppard, retiring as chairman at the annual meeting next March, will have spent 10 years transforming the company. Taking an ill-fated conglomerate of some 30 companies he has focused it on distilled drinks and food.

The huge effort has brought some rewards to shareholders. Earnings and dividends have grown at an average annual rate of 9 per cent and 13 per cent during his tenure.

But investors have not enjoyed much capital appreciation. The share price has risen 15 per cent a year on average but still stands some 80p below its peak of 500p in May 1992. The stock has underperformed its sector by 17 per cent and the London market by 5 per cent since 1986.

A number of factors in drink, food and finance have held back the shares. On drinks, all distillers have found it hard to wring higher prices and volumes out of consumers during and after the recession of the early 1990s. GrandMet has

done better at growing volumes, devising new drinks and simplifying its infrastructure than Guinness and Allied Domecq and to a lesser extent Seagram, but the profits have yet to flow strongly from that.

On food, GrandMet has done well buying and integrating US companies such as Pillsbury

and IDV, GrandMet's drinks business, to group chief executive, at the same time. "I've been involved for a number of years with George and Allen (Sheppard) on strategy and through a period of heavy investment. We're not going to dig that up now that it's working," said Mr McGrath.

**The consumer who is buying the Whopper hamburger is not necessarily the one buying the bottle of very expensive Scotch**

and more recently Pet but it has yet to devise a credible European food strategy.

On finance, GrandMet's willingness to shoulder a heavy debt burden, capitalise its brand values and use innovative financing methods are not to the tastes of some conservative analysts and investors.

But will GrandMet change when Lord Sheppard retires? Yes but not much, was the message from Mr George Bull who steps up from chief executive to chairman on March 1 and from Mr John McGrath who moves up from chief executive of IDV, GrandMet's

drinks business, to group chief executive, at the same time. "I've been involved for a number of years with George and Allen (Sheppard) on strategy and through a period of heavy investment. We're not going to dig that up now that it's working," said Mr McGrath.

But there is an immediate change in management structure. Previously, Mr McGrath headed drinks and Mr David Nash, the loser to Mr McGrath in the chief executive race, headed food and both reported to Mr Bull as chief executive. Instead, Mr Nash's job has been disbanded along with eight other food jobs at the centre. Most of the responsibilities are taken over by Mr Paul Walsh, the 40-year-old British chief executive of Pillsbury, based in the US. European foods, headed by Mr Jean D'Amaecourt, will report to him.

Burger King, the fast food chain, will now report directly to the group chief executive, as will Mr Walsh and the head of IDV, although a replacement for Mr McGrath has yet to be chosen.

Pillsbury, Burger King and IDV have a lot in common in terms of how they get their message across to consumers, said Mr Bull. "The management process of how you get the consumer to reach out and buy our brand is very much the same."

Mr Bull acknowledges that it is not necessarily the same consumer buying a Whopper hamburger as a bottle of very expensive Scotch whisky, but said there are synergies nonetheless, particularly in emerging markets.

The theory met with some scepticism in the City. "Very different drivers are at work," said one analyst. "Drink is very much an aspirational product and food more of a necessity."

A close follower of the company suggested that to fully reward shareholders, the new team should consider demerging GrandMet into a US-based international food company and a UK-based international drinks group.



## GROUPE SUEZ 1995 INTERIM FINANCIAL RESULTS

### 1 - Groupe Suez 1995 Interim Financial Results

At its meeting of October 10 chaired by Gérard Mestrallet, the Board of Directors of Compagnie de Suez closed the consolidated financial statements for the six months ended June 30, 1995. The interim financial statements are summarized below:

After minority interests, in FRF millions	June 30, 1994	December 31, 1994	June 30, 1995
Operating income before the impact of the real estate crisis	2,240	3,391	910
Impact of the real estate crisis	(1,762)	(7,561)	(4,076)
Net non-operating income (loss)	317	(614)	(810)
Net income (loss) for the period	795	(4,784)	(3,976)

In reviewing the interim financial results, the Board noted the following points:

1 - Contributions to operating income by SGB, Sofisco and Lyonnais des Eaux improved significantly. Operating income at Banque Indosuez fell, affected as in all other French banks by weak business in the financial markets at the beginning of the year.

2 - Major real estate provisions, amounting to some FRF 4 billion, once again adversely affected Suez's financial results. Provisions for real estate risks were calculated using the same methods as at December 31, 1994 (see appendix).

The high level of provisions made in the first half is due to the following factors:

- The French real estate market has experienced persistent difficulties in 1995. Some forty programs in which Suez is invested (notably Zeus, Réaumur, Cœur Défense, Saint-Jacques and Suez/FCE development programs) were reviewed in detail. They are particularly complex and have evolved in a manner that required major provisions. These provisions, amounting to some FRF 2.3 billion, relate to assets representing around half of the Suez's total net exposure. They reflect the particular situation of the underlying programs, as assessed at the end of the first nine months of 1995.

- General provisions were set aside in an amount of FRF 1.7 billion. They are intended to cover two factors:

• The general deterioration of the real estate market, as assessed three months before the end of the year. This assessment has been applied in assets (outstanding developer loans, development programs and assets acquired as a result of the real estate crisis) which are not covered by the specific provisions mentioned above. The impact of the deterioration is estimated at FRF 700 million.

• While the plan to divest all real estate assets by 2001 remains valid, it will be necessary to modify the profile of investments over this period, in the light of the unfavorable change in the rate of sales since the end of the first quarter. The provision for future costs up to the time of divestment will require adjustment as a consequence. A general provision to cover this re-estimation of FRF 1 billion has been made at June 30, in anticipation of the adjustment to the existing provision in the second half of the year.

Taking into account these new provisions, the net value of real estate commitments has been reduced to FRF 15.5 billion.

### APPENDIX

#### METHODS USED FOR DETERMINING REAL ESTATE PROVISIONS SINCE DECEMBER 31, 1994

Provision is made for the difference between cost and current market value.

Provision is made for the discounted current value of all expected future costs (financing costs of non-performing loans and of partially let properties, management costs).

#### CONTRIBUTIONS OF PRINCIPAL SUBSIDIARIES

##### 1 - Contributions to Operating Income before the impact of the real estate crisis (net of income taxes and minority interest)

FRF millions	June 1994	December 1994	June 1995
Banque Indosuez	907	1,347	* (48)
Société Générale de Belgique	460	874	623
Crédit Suisse	22	81	89
Specialized finance companies	187	345	256
Victoire	297	297	—
Compagnie de Suez and Suez Investor	367	447	(110)
Total	2,240	3,391	910

\* After deducting remuneration of preference shares and certain dividends received

##### 2 - Contributions to Net Income

FRF millions	June 1994	December 1994	June 1995
Banque Indosuez	420	(1,075)	(16)
Société Générale de Belgique	578	980	* 629
Crédit Suisse	(41)	(3,325)	(1,639)
Specialized finance companies	185	318	248
Victoire	(407)	(1,387)	—
Compagnie de Suez and Suez Investor	60	(295)	(3,008)
Total	795	(4,784)	(3,976)

\* Before provision on Arbed shares necessary only at the level of Compagnie de Suez

October 10, 1995

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- Project Finance

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Samsung Main Building, 27th Fl.  
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Seoul, Korea 100-742  
Attn: Seong Bae Kim  
(Fax) 82-2-751-2064



GBP 10,000,000

YORKSHIRE BUILDING SOCIETY

Floating Rate Subordinated Notes due 1999

Interest Rate 7.61715% p.a.

Interest Period October 13th, 1995

January 15th, 1996

Interest Amount due on January 15th, 1996 per GBP 100,000 GBP 1,961.89

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#### NOTICE TO SHAREHOLDERS

Shareholders are kindly invited to attend the Ordinary Annual General Meeting with the following agenda, to be held at the offices of Banque Internationale à Luxembourg S.A., 69, route d'Esch, Luxembourg on Friday 27th October, 1995 at 4.00 p.m.:

1. Reports of the directors and of the independent auditor on the annual accounts for the period ended 30th June, 1995;
2. Approval of the audited annual accounts at 30th June, 1995;
3. Decision on the disposal of the net results by way of cash dividends as recommended by the directors;
4. Discharge to be granted to the directors and to the independent auditor;
5. Election or reelection of directors and reappointment of the independent auditor;
6. Miscellaneous: To transact such other business as may properly come before the meeting or any adjournment thereof, as may be recommended by the directors.

The shareholders are advised that no quorum is required for the items on the agenda of the annual general meeting and the decisions will be taken on simple majority of the shares present or represented at the meeting.

In order to attend the meeting the owners of bearer shares will have to deposit their shares five clear days before the meeting with Banque Internationale à Luxembourg, 69, route d'Esch, Luxembourg.

The Board of Directors

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### CREDIT LOCAL DE FRANCE

FRF 750,000,000 REVERSE FLOATER BONDS DUE 2000

ISIN CODE XS0043078954

For the period October 16, 1995 to April 15, 1996 the new rate has been fixed at 7.01498 % P.A.

Next payment date: April 15, 1996

Coupon n° 5

FRF 348,78 for the denomination of FRF 100,000

FRF 3 487,81 for the denomination of FRF 100,000

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## ANNOUNCEMENT OF TENDER AO SVYAZINVEST

### Major Telecommunications Investment Opportunity in Russia

The Russian Privatization Center, on behalf of the Russian Federal Property Fund, has announced a commercial tender with investment conditions for the sale of a stake of AO Svyazinvest.

AO Svyazinvest, with charter capital of Rubles 7,702,508 million comprising 7,702,508 common shares of Rubles 1,000,000 each, is a major new telecommunications company consolidating the Government of the Russian Federation's interests in 85 local telephone companies operating throughout the Russian Federation. In addition, AO Svyazinvest will be awarded a license to offer international and inter-regional telecommunications services in the Russian Federation.

The sale will be accomplished by selling 1,925,628 (one million, nine hundred and twenty five thousand, six hundred and twenty eight) common shares at a minimum price of Rubles 1,000,000 per share. In addition, the purchaser will be required to provide capital investment in the Ruble equivalent of a further \$400 per share over the two years following the purchase of the shares. This tender opened on 17th October 1995 and final bids are due on 30th November 1995.

An information memorandum on AO Svyazinvest and the complete regulations for the tender will be made available to interested parties at the address below upon the execution by an authorised representative of a confidentiality agreement provided by the Russian Privatization Center and the payment of a fee in the amount of Rubles 5 million to cover the costs of production of the information memorandum. A copy of the rules of tender will be provided free of charge to any party requesting it. Intermediaries of any kind are required to reveal the identity of their principals.

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Leningradskiy Prospekt 80, 125 178 Moscow, Russian Federation  
Telephone: +7 502 224 5035/5036 Fax: +7 502 224 5037

This announcement is not an offer of any kind. The information in this announcement has not been verified by the Russian Privatization Center, N M Rothschild & Sons Limited or members of the advisory consortium, including ING Barings, nor does the Russian Privatization Center, N M Rothschild & Sons Limited or members of the advisory consortium, including ING Barings, accept any responsibility for, or make any representation in relation to the accuracy or completeness of such information. Any decision to participate in the tender will be made solely on the basis of the open tender documentation. This advertisement has been approved for the purposes of section 57 of the Financial Services Act 1986 by N M Rothschild & Sons Limited, which is regulated by the Securities and Futures Authority.

## COMPANY NEWS: UK

# Problems in Nigeria hit Paterson Zochonis

By David Blackwell

Problems in Nigeria, which accounts for about a fifth of group sales, knocked 11 per cent from full-year profits at Paterson Zochonis.

The toiletries and detergents group, which makes Cussons Imperial Leather soap, reported pre-tax profits for the year to May 31 of £25.1m, against £28.1m. The contribution from the associated Nigerian companies halved to £2.34m.

The group warned a year ago that its Nigerian operations were suffering from a lack of foreign exchange in the banking system, hitting the ability

to import sufficient raw materials.

Nigerian sales were ahead in local currency, but fell by some £10m to £50m in sterling terms. The overall increase was driven by the performance of subsidiaries in Greece and Poland and, to a lesser extent, Indonesia.

In Poland, where the group made a cosmetics acquisition in June, it has been able to build on the strength of existing local soap brands, taking sales to £30m. Last week it introduced the Imperial Leather brand.

Greek sales were about 25 per cent higher, while Indonesian sales rose 50 per cent, lift-

ing total Pacific turnover to £25m. Mr Whitaker said the Indonesian operations had reached a turning point, and were now both profitable and able to take advantage of a large potential market.

The balance sheet showed investments at £157.3m, down from £167m, reflecting increased capital investment of £20m as the group built strength in new markets. New factories were under construction in Greece, Poland and Ghana.

Analysts, who were looking for £23m pre-tax, nudged forecasts for the current year ahead to £28m, with a dividend of 16p.

## CRH buys Polish cement stake

By Andrew Taylor in London and Christopher Bobinski in Warsaw

CRH, the Dublin-based building materials group, has made its first investment in eastern Europe with the purchase of a strategic stake in Poland's largest and most modern cement plant.

It has bought 40 per cent of Cement Polski, a holding company, for £6.1m plus the provision of £23.5m loan finance. Cement Polski has purchased 75 per cent of Cementownia Ozarów for £23.5m (\$37m).

Ozarów generated net profits of 28.5m zlotys (£7.4m) last year. This year profits are expected to reach 32.3m zlotys.

## Scholl dismisses French 'approach'

By David Blackwell

Scholl, the healthcare products group fighting a shareholder rebellion, yesterday confirmed that it had received a letter from a private French company interested in a merger.

The company is understood to be Arkopharma, a pharmaceutical group based in Provence which has annual sales of about £75m (\$116m). Shares in Scholl closed 9p down at 219p, valuing it at about £150m.

In a statement to the Stock Exchange, Scholl, which has asked for further clarification of the French company's circumstances, dismissed the proposal in the letter as "extremely vague". It added: "The French com-

pany is unlisted, is much smaller than Scholl and no evidence has been produced that it is, or would be, in a position to implement any offer."

Sammel Montagu has advised that the letter does not constitute a serious approach. Arkopharma wrote to Scholl at the instigation of Mr Julian Treger of Active Value Fund, who is leading the rebellion. He and Mr Brian Myerson, also of Active Value, are seeking election to the Scholl board as they believe shareholder value will be maximised by its sale to another group.

Mr Treger has claimed that the rebels, had received approaches from four interested parties, including a French company.

## Signet dissidents seek seats on board

By Neil Buckley

Rebel shareholders in Signet, the UK's biggest jeweller, are attempting to take control of the board and force through a financial restructuring of the heavily-indebted group.

The challenge from Parcon Managers, an investment vehicle led by Mr Julian Treger and Mr Brian Myerson emerged from amendments to filings with the US Securities and Exchange Commission, made public yesterday by Signet.

The rebels, who hold 22 per cent of the voting rights, want to replace "all or most of" Signet's board, and replace chairman Mr James McAdam or reassign his duties. They say they have hired financial advisers to put together a restructuring, and are continuing to seek offers for Signet, Signet's US business.

But the dissident shareholders do not plan to hold more than 29.9 per cent of voting rights - which would trigger a full takeover bid.

Mr Treger and Mr Myerson represent preference shareholders owed more than £100m in dividend arrears, and failed in May to force Signet to consider a break-up that proposed ordinary shareholders would receive 20p a share.

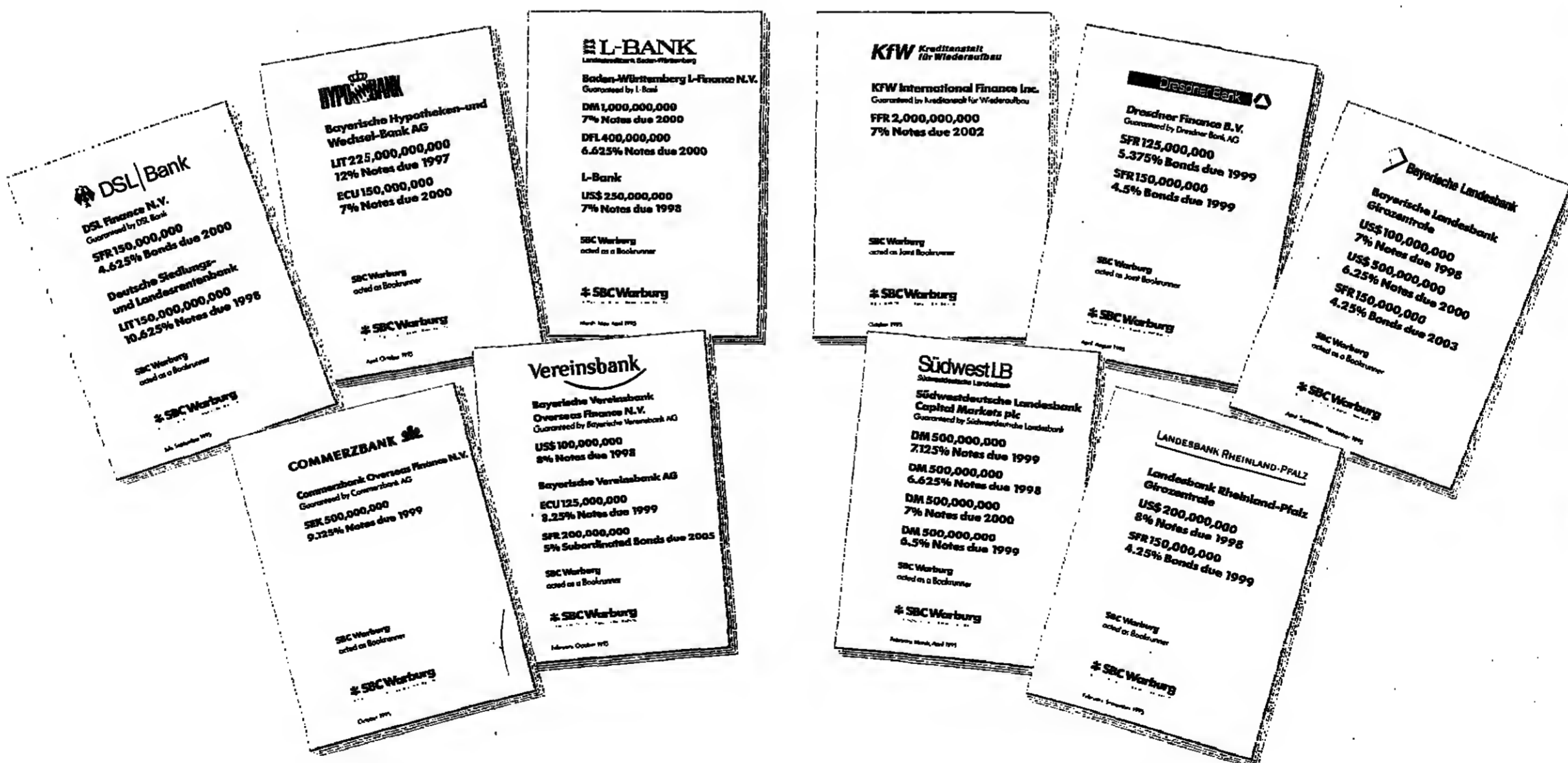
Mr McAdam, who last month launched an attempt to reorganise Signet's complex equity structure as a first step towards a reconstruction, insisted the current board was best placed to achieve a solution fair to all investors.

## RESULTS

	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current payment (p)	Date of payment	Dividends Corresponding dividend	Total for year	Total last year
Boat (Henry)	6 mths to June 30	36.7 (72.1)	2.71 (2.57)	7 (6.8)	1.95	Nov 17	1.85	7.1
Brannock	6 mths to June 30	0.633 (0.04)	0.11 (0.038)	1.11 (1.06)	-	-	-	29
El Oro	6 mths to June 30	- (-)	1.24 (0.788)	19.31 (12.06)	-	-	-	10
Exploration Co	6 mths to June 30	- (-)	1.27 (1.04)	7.53 (6.08)	-	-	-	0.5
Newport	6 mths to June 30	0.872 (0.377)	0.099 (0.025)	0.35 (0.3)	12.45	Dec 5	11.4	11.85
Paterson Zochonis	Yr to May 31	25.1 (28.1)	22.1 (28.1)	32.35 (36.1)	0.5	Jan 16	11.4	2.25
Tie Bank	28 wks to Aug 13	41.55 (36.5)	0.49 (0.407)	0.63 (0.53)	-	-	-	-
Investment Trusts	NAV (p)	Attributable earnings (p)	EPS (p)	Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
ECU	Yr to June 30	72.5 (67)	0.283 (0.225)	0.84 (0.75)	0.5	Dec 1	0.5	0.5
Steel & Merc. Exch	Yr to Sept 30	106.79 (97.74)	3.4 (3.12)	9.13 (8.4)	1.989	Dec 4	1.989	7.875

Dividends shown net. Earnings shown basic. Figures in brackets are for corresponding period.  $\Phi$  Airtel stock  $\star$  Comparatives for three months to June 30 1994.  $\square$  Not yet received.

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مكتبة الشامل

COMMODITIES AND AGRICULTURE

MARKET REPORT

Aluminium hits 12-month lows as strike unwinds

ALUMINIUM prices fell to 12-month lows on the London Metal Exchange yesterday as general selling emerged on bearish developments at Alcan Aluminium, the Canadian producer.

The three months delivery position dipped to \$1,653 a tonne at one stage, before steadying to \$1,668.50 at the close, down \$24 on the day, in after hours "kerb" trading the price recovered further to \$1,674.

Confirmation that a 10-day strike at the company was unwinding depressed values, as did comments from the Alcan workers' union to the effect that the company was restarting 156,000 tonnes a year of idled production capacity. The company has yet to comment on the issue of restarts.

"The Alcan news pushed the market lower. There was also some forward selling from producers in the morning, and they may have a bit more to do," said one LME trader.

Some LME traders thought Alcan idled capacity under a global memorandum of understanding to draw down excess stocks in 1994, although Alcan sources said the decision was not a part of the MOU agreement. But traders said there was a risk that an Alcan decision to restart production might prompt MOU participants to bring back some of their idled capacity more quickly than originally planned.

Some analysts argued that Alcan's reported decision was brought about by specific circumstances caused by the strike and need not effect the timing of other restarts around the world.

"It is clear Alcan's restarts are partly to make up for losses caused by the strike," said one London analyst. "Losses due to the strike are likely to total around 80,000 tonnes."

The technical outlook for

aluminium turned more bearish following yesterday's activity. Chart-watchers warned that the next area of support below current levels was not until \$1,550.

LME COPPER prices fell in sympathy with aluminium and on continued liquidation following the cash sell-off on Monday in the lead up to "third Wednesday" options-related pricing.

LME WAREHOUSE STOCKS (As at Monday's close)

Aluminium	2,450	to 224,175
Aluminium alloy	380	to 47,040
Copper	+575	to 176,825
Lead	+3,425	to 208,860
Nickel	990	to 55,280
Zinc	-2,575	to 725,800
Tin	+15	to 14,285

The three months price ended the kerb session \$29 lower at \$2,723 a tonne, after recovering from a 4% month low of \$2,703.

LEAD prices eased under pressure from cash selling and an LME warehouse stock rise of 3,425 tonnes. Cash lost its premium over three months metal with both ending at \$640 a tonne.

Three months delivery NICKEL rose \$40 to \$7,530 a tonne with traders noting that Falconbridge, the big Canadian producer, expected 1995 output to fall to 54,000 tonnes from 68,000 tonnes in 1994. LME stocks fell 930 tonnes, which was also supportive.

At the London bullion market the GOLD price drifted down a few cents in the afternoon after New York futures prices opened lower than forecasts, dealers said. Even so, the moves were minimal and the market's neutral posture and technical background were unchanged.

"I'm not bearish for gold but just now I'm not really interested until it breaks out of these ranges," a dealer said.

The market hardly reacted to US industrial production and capacity utilisation data, which was slightly weaker

than expected, but not enough to be significant, New York analysts said.

London Commodity Exchange COCOA futures prices held on to early gains to end \$7 to \$11 a tonne higher, helped by more bullish technicals. But traders said the upside could be limited to \$950, for March delivery, owing to origin sales.

LCE robust COFFEE futures slumped in the afternoon, surrendering \$80-plus gains, as a bout of profit-taking and producer sales knocked the recent rally on the head.

The November contract ended \$5 lower at \$2,410 after being \$92 higher at \$2,510 at one stage.

"It was a bit of a bull trap," one trader said. "The market got above \$2,500 and was very tentative. I think the trade realised and then sold."

A draw down of \$72,000 bags to 2,608,000 bags in September of Green Coffee Association of New York stocks sparked the early flurry of buying in London. But New York prices failed to rally and instead started to fall, giving traders and producers, including Indonesia and Vietnam, their cue to sell.

London's November contract held above the \$2,400-\$2,200 trading range it broke out of on Monday, however, and traders saw that as constructive.

Worries about the tropical storm off Mexico and a presidential reaffirmation by Latin American countries for the producer export cuts would offer some underlying support, they added. One trader noted that the GCA figures indicated that the US had just 56 days of supply in the pipeline and said that suggested roasters might return to the market in stronger force and perhaps begin to cover further forward, having adopted a hand-to-mouth policy in recent months.

Compiled from Reuters

Grim outlook seen for European coal industry

By Frances Williams in Geneva

The future of Europe's coal industry looks grim, despite growing world demand for coal, the United Nations Economic Commission for Europe says in a report published yesterday.

With most of Europe's hard coal mined underground, at great depth and under difficult geological conditions, the scope for containing costs is limited compared with other regions using mainly opencast

methods, the ECE says. The European industry's prospects will thus depend on the world market price and on government support.

In its survey of the coal situation in 1994, the ECE says mine closures, weak economic growth and strong environmental controls led to a further shrinking of European coal consumption and production.

In western Europe hard coal production fell last year by 28m tonnes to 135m tonnes

while in eastern Europe it dropped by 38m tonnes to 535m tonnes. European brown coal output fell by 58m tonnes to 657m tonnes.

By contrast, production of hard coal in Asia rose by 88m tonnes in 1994 to 1,565m tonnes, or 44 per cent of world output of 3,534m tonnes. China, which produced 1,206m tonnes of hard coal last year, now accounts for over a third of world output and over a quarter of world consumption.

North America accounts for about a quarter of global output and consumption, while Europe's share of output has shrunk from more than a quarter in 1980 to less than a fifth in 1994. The region imported about 200m tonnes of coal last year.

The ECE predicts that coal, which provides 44 per cent of the world's electricity, will continue to be the dominant source of electricity generation in Europe and elsewhere. Some 50 countries have known coal

reserves, estimated to last at least 200 years at current production levels.

Increased use of clean coal technologies and improved energy efficiency is expected to make coal more acceptable from an environmental point of view, the UN body says.

The coal situation in the ECE Region in 1994 and the global prospects for coal: available from UN Economic Commission for Europe, Geneva. Fax +41 22 917 0038/0095.

US companies breathe life into Peruvian mining

Sally Bowen on improvements achieved by the new owners of privatised mines

Magma Copper and Cyprus Amax are becoming the pace-makers in Peru's mining revolution. After almost 30 years of stasis, progressive decapitalisation and antiquated working methods, the two US-owned companies are breathing fresh life into traditional mining practices in one of the world's richest but most neglected mining countries.

Both Magma and Cyprus acquired major Peruvian copper deposits - Tintaya and Cerro Verde respectively - through the continuing process of privatising state-owned assets. So far, they appear well satisfied with their investments.

Tintaya, a high-grade copper deposit between Cuzco and Arequipa, was bought by Magma at a keenly-contested auction last November for about \$245m (with a mixture of cash and paper) and an associated investment commitment of at least \$85m. Between January and July, Magma raised production almost 40 per cent compared to the same period last year (to 35,540 tonnes).

Although Tintaya had been widely considered an efficient operation - by Peruvian standards - Magma's managers were able immediately to raise throughput from the 8,000 tonnes per day the concentrator plant was designed for to 11,000 tonnes-plus.

"In order to remain a big-time player in copper, Magma had to buy a major mine," says Mr Browne. The target Magma set itself in 1994 was to be producing 750m pounds of copper annually within two years. Tintaya fitted Magma's expansion strategy both for its proven reserves and potential to produce at 50 cents a pound or lower.

Tintaya's main open pit and associated deposits still contain 58m tonnes of reserves: grades average around 1.78 per cent copper. Nearby Corococha promises grades between 2.5 and 3.5 per cent.

Possibilities of new finds are also high. Magma will spend \$10m on exploration of on-site deposits over the next two years. Studies for a solvent-extraction/electro-winning plant at Tintaya are under way. Probable investment would be around \$100m, raising output by an additional 70m lb a year by 1998.

Magma has already spent some \$20m on updating mine equipment - mostly on new Caterpillar trucks and bulldozers - and \$5m on a new communications and computing system. "The technical side is

going real well," says Mr Browne, "and we have excellent relations with the local community."

Cerro Verde, another prestigious mine in Peru's copper-rich south, was acquired by Cyprus Amax at auction in

deposit. Final results, due next month, will determine the size of Cyprus Amax's investment in a concentrator plant (for the primary sulphides) and hydro-metallurgical operation (for the secondary sulphides).

The larger of Cerro Verde's two open pits is on standby, pending drilling results. To around 33,000 tonnes (all 99.98 per cent pure copper cathodes) a year. Next year's target is 48,000 tonnes. Investment, largely in new mine equipment, tops \$67m to date.

"Essentially we're moving ahead on all fronts," says Mr Jake Timmers. Labour relations are simpler and better, he says, while safety and environmental concerns now obey "the same strict standards with the same system of audits as in the US".

The new owners of both Cerro Verde and Tintaya have moved their administrative offices out of Lima to their respective mine sites. Both have substantially reduced their workforces. Tintaya now operates with a staff of around 600, down from the 1989 peak of 1,400 under state administration; Cerro Verde's staff is down to 550 from 2,000, while production levels have been maintained.

Both North American newcomers have introduced a refreshingly modern approach, for Peru, to labour policy. Cerro Verde has eliminated the traditional division between white and blue-collar workers (most Peruvian mines still have separate living and eating quarters for the distinct "classes" of personnel). Both companies are emphasising training and say they are delighted with workers' responsiveness and adaptability.

Better management-labour relations have yielded immediate results. Magma Tintaya's management is proud of having negotiated a five-year contract, with built-in productivity targets, with its unions - "historic anywhere in Latin America," says Mr Browne. Magma is also educating all personnel in the workings - and vagaries - of the world copper markets and, hence, the need to control costs and be internationally competitive.

"Now they understand what influences the success of the company, ensures their job stability and raises their living standards," says Mr Browne. Cyprus should have its hands full developing Cerro Verde over the next few years. Magma, however, may well be tempted to bid in forthcoming privatisations: the copper deposits known as Las Bambas, for example, part of the same copper belt as Tintaya but almost 100 miles away, could well prove irresistible.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Antwerp/London Metal Trading)

ALUMINIUM, 99.7 PURITY (% per tonne)

Cash 3 months

Close 1631.5-92.5 1086-08

Previous 1608-07 1602-05

High/Low 1644-45 1685/1655

AM Official 1674-75 1674-75

Kerb close 2152.81

Open Int. 72.484

Total daily turnover 1385-95

ALUMINIUM ALLOY (% per tonne)

Close 1415-25 1480-45

Previous 1390-95 1435-45

High/Low 1415-25 1480-45

AM Official 1415-25 1480-45

Kerb close 2152.81

Open Int. 72.484

Total daily turnover 1385-95

LEAD (% per tonne)

Close 642.5-44.5 642-43

Previous 645-47 644.5-43.0

High/Low 645-47 644.5-43.0

AM Official 644-45 643-43.5

Kerb close 640-1

Open Int. 34.065

Total daily turnover 11,111

NICKEL (% per tonne)

Close 7770-80 7810-05

Previous 7750-80 7800-15

High/Low 7750-80 7810-05

AM Official 7750-80 7810-05

Kerb close 7820-90

Open Int. 45,820

Total daily turnover 12,431

TIN (% per tonne)

Close 6155-55 6220-25

Previous 6195-205 6200-70

High/Low 6195-205 6200-70

AM Official 6155-55 6220-25

Kerb close 6220-30

Open Int. 19,280

Total daily turnover 5,394

ZINC, special high grade (% per tonne)

Close 985-87 989-90

Previous 985-86 985-85

High/Low 985-86 985-85

AM Official 985-85 988-85

Kerb close 981-2

Open Int. 83,304

Total daily turnover 31,075

COPPER, grade A (% per tonne)

Close 2748-53 2748-27

Previous 2770-75 2760-27

High/Low 2770-75 2760-27

AM Official 2748-53 2748-27

Kerb close 2734-5

Open Int. 190,298

Total daily turnover 1,477

LME AM Official 848 1,5785

LME Closing 848 1,5785

Spot: 1.5743 3 month: 1.5711 6 month: 1.5673 9 month: 1.5651

HIGH GRADE COPPER (COMEX)

Sett. Day's

price change High Low Int. Vol

Oct 125.30 -2.75 124.20 124.50 1,388 277

Nov 124.80 -3.20 123.15 123.30 2,228 5,231

Dec 123.85 -3.20 122.15 122.30 512 49

Jan 122.15 -2.50 120.50 120.60 512 49

Feb 122.45 -2.50 120.50 120.60 512 49

Mar 121.80 -2.20 120.15 120.20 5,249 213

Total 36,615 6,894

PRECIOUS METALS

LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold (Troy oz) \$ price 2 equiv SFT equiv

Close 383.10-383.50 383.00

Previous 383.50-384.20 383.50

Opening 383.50-384.20 383.50

AM Official 383.40 383.50 442,320

Aluminium 383.40 383.50 441,225

Day's High 383.50-384.00

Day's Low 383.00-383.40

Previous close 383.50-384.00

Local Leds Mean Gold Lending Rate (US \$)

1 month -4.02 5 months -3.87

2 months -3.85 12 months -3.88

3 months -3.85

Spot Fix 383.70 US cts equiv.

Silver 383.70 US cts equiv.

3 months 384.00 US cts equiv.

6 months 384.00 US cts equiv.

1 year 384.00 US cts equiv.

Gold Colls 383.50 US cts equiv.

Maple Leaf 384.15-384.60 US cts equiv.

New Sovereign 86-91

Precious Metals continued

GOLD COMEX (100 Troy oz; \$/troy oz)

Sett. Day's

price change High Low Int. Vol

Oct 383.10 -2.75 382.00 382.50 1,388 277

Nov 382.60 -3.20 380.90 381.00 2,228 5,231

Dec 381.65 -3.20 379.95 380.00 512 49

Jan 380.00 -2.50 378.30 378.40 512 49

Feb 379.35 -2.50 377.65 377.70 5,249 213

Total 36,615 6,894

PLATINUM NYMEX (50 Troy oz; \$/troy oz)

Oct 413.8 -1.8 412.5 413.0 508 2

Nov 412.8 -1.8 411.5 412.0 508 2

Dec 411.8 -1.8 410.5 411.0 508 2

Jan 410.8 -1.8 409.5 410.0 508 2

Feb 409.8 -1.8 408.5 409.0 508 2

Mar 408.8 -1.8 407.5 408.0 508 2

Total 2,498 1,877

PALLADIUM NYMEX (100 Troy oz; \$/troy oz)

Oct 136.7 -0.7 135.5 136.0 4,823 282

Nov 140.25 -0.7 139.0 139.5 4,823 282

Dec 141.50 -0.7 140.25 140.75 4,823 282

Jan 142.75 -0.7 141.50 142.00 4,823 282

Feb 144.00 -0.7 142.75 143.25 4,823 282

Mar 145.25 -0.7 144.00 144.50 4,823 282

Total 24,980 18,777

SILVER COMEX (100 Troy oz; \$/troy oz)

Oct 531.9 -0.3 - 111 60

Nov 531.9 -0.3 - 111 60

Dec 531.9 -0.3 - 111 60

Jan 531.9 -0.3 - 111 60

Feb 531.9 -0.3 - 111 60

Mar 531.9 -0.3 - 111 60

Total 1,111 60

ENERGY

CRUDE OIL NYMEX (42,000 US gal; \$/barrel)

Sett. Day's

price change High Low Int. Vol

Oct 17.86 -0.07 17.79 17.86 43,832 28,514

Nov 17.86 -0.07 17.79 17.86 43,832 28,514

Dec 17.86 -0.07 17.79 17.86 43,832 28,514

Jan 17.86 -0.07 17.79 17.86 43,832 28,514

Feb 17.86 -0.07 17.79 17.86 43,832 28,514

Mar 17.86 -0.07 17.79 17.86 43,832 28,514

Total 17.86 -0.07 17.79 17.86 43,832 28,514

CRUDE OIL IPE (\$/barrel)



CURRENCIES AND MONEY

MARKETS REPORT

Franc falls on economic and political worries

By Graham Bowley

Growing unease over French economic policy and concerns over government corruption pushed the French franc lower on the foreign exchanges yesterday.

The franc broke through FF3.50 against the D-Mark, which was seen as a key level of support for the French currency. It closed in London at FF3.508 from FF3.495, against the D-Mark.

Elsewhere, while the French franc sold off, other European currencies managed to remain firm against the D-Mark - at least for the early part of the London trading day - helped by the US dollar's tight trading range against the German currency.

Only in late trading did the dollar dip lower against the D-Mark as the German unit began to strengthen against other European currencies.

The dollar finished at DM1.4166 from DM1.4195.

Against the yen, it closed at ¥100.4 from ¥100.3. Sterling lost ground against the D-Mark, finishing at DM2.2396 from DM2.2376. Against the dollar it closed at \$1.5738 from \$1.5763.

The decision to cut the Bank of France's 24-hour emergency lending rate on Monday was seen by analysts as one of the main reasons for the franc's decline.

The cut in the lending rate - which was raised last week in an attempt to defend the franc from speculative attack - was seen as premature and had begun to undermine confidence in the authorities' judgement, analysts said.

Worries over the French government's progress on budget

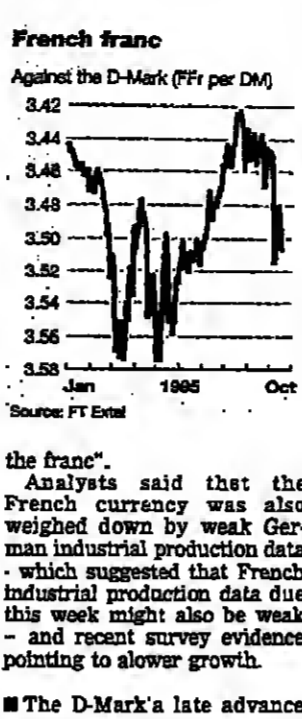
spending cuts and allegations of corruption levelled against Mr Jean Arthuis, the finance minister, also added to the downward pressure on the French currency.

"The easing of the pressures on the franc (at the end of last week) were only a temporary reprieve," said Mr Ken Watret, international economist at HSBC Markets in London.

"There remains a question mark over what the government will decide on welfare spending and there is a political risk in the French franc," he said.

Concerns over progress on spending cuts came to the fore as the French national assembly began its debate on the 1996 budget.

Ms Soňa Grueter, senior economist at ISI International in London, said that if the French authorities do not deliver "substantial results on spending cuts in the next couple of days then speculators are going to have to go after



came amid speculation that the Bundesbank might leave the repo rate unchanged at its money market operations scheduled for today. This would bring an end - temporarily at least - to the Bundesbank's recent policy of regular monthly rate cuts.

The D-mark's rise was the main reason behind the dollar's relative decline. Economic data showing the first fall in US industrial output for five months was also given as a reason for the currency's weakness, although this was also put down to disappointment over US Treasuries' failure to react positively to the data.

The main focus today will be trade figures from both the US and Japan. The Japanese data, which have been showing an improving trend over recent months, is expected overnight.

But more important are the US data, which last month triggered a sharp sell-off in the dollar after showing a record high trade deficit.

large deficit this month could exert further downward pressure on the dollar, which in turn would be detrimental for European currencies, particularly the French franc.

The Italian lira was supported by economic data showing stronger than expected industrial production. There is however concern that the lira may be held back by corruption allegations surrounding Mr Silvio Berlusconi and by today's no confidence debate tabled by centre-left politicians in parliament.

The Bank of England provided £575m assistance towards clearing a forecast shortage of \$650m in its daily money market operations.

OTHER CURRENCIES

Cash rate 4.25% 4.14% 26.240 26.240

Italy 26.238 26.233 131.70 131.70

Spain 26.238 26.233 131.70 131.70

Portugal 26.238 26.233 131.70 131.70

Switzerland 26.238 26.233 131.70 131.70

Sweden 26.238 26.233 131.70 131.70

Denmark 26.238 26.233 131.70 131.70

Norway 26.238 26.233 131.70 131.70

Finland 26.238 26.233 131.70 131.70

Belgium 26.238 26.233 131.70 131.70

France 26.238 26.233 131.70 131.70

Germany 26.238 26.233 131.70 131.70

Greece 26.238 26.233 131.70 131.70

Malta 26.238 26.233 131.70 131.70

Poland 26.238 26.233 131.70 131.70

Romania 26.238 26.233 131.70 131.70

Slovakia 26.238 26.233 131.70 131.70

Slovenia 26.238 26.233 131.70 131.70

Turkey 26.238 26.233 131.70 131.70

Ukraine 26.238 26.233 131.70 131.70

Yugoslavia 26.238 26.233 131.70 131.70

POUND SPOT FORWARD AGAINST THE POUND

Oct 17	Closing mid-point	Change on day	Oct 17	Closing mid-point	Change on day	Oct 17	Closing mid-point	Change on day	Oct 17	Closing mid-point	Change on day
Europe			Australia			Canada			Denmark		
Australia	15.8971	-0.0574	797	944	15.7553	15.6597	2.3	15.5981	2.3	10.71	
Belgium	45.8906	-0.1413	488	322	46.1340	45.7956	2.5	46.0556	2.5	44.708	2.2
Denmark	8.0596	-0.0188	545	826	8.0596	8.0596	1.1	8.0596	1.1	5.7178	1.0
France	7.8105	-0.0055	187	222	7.8307	7.7939	7.2524	-1.1	7.8105	-1.1	10.8
Germany	2.2296	-0.0008	287	305	2.2429	2.2296	2.2245	2.8	2.2151	2.8	2.1741
Greece	10.0775	-0.0084	132	224	10.0775	10.0775	1.5	10.0775	1.5	8.7081	1.1
Ireland	0.7971	-0.0005	784	789	0.7971	0.7971	0.9782	1.0	0.7971	0.9782	0.5
Italy	2517.45	-0.785	587	903	2520.88	2515.21	2524.7	-3.5	2520.88	-3.5	2507.75
Luxembourg	45.8906	-0.1413	488	322	46.1340	45.7956	2.5	46.0556	2.5	44.708	2.2
Netherlands	2.4972	-0.0078	980	983	2.5113	2.4972	2.4907	3.1	2.4768	3.1	2.4338
Norway	8.0596	-0.0173	125	330	8.0596	8.0596	1.5	8.0596	1.5	5.7178	1.0
Portugal	24.758	-0.001	825	887	24.758	24.758	2.2626	-2.6	24.758	-2.6	10.8
Spain	182.950	-0.147	836	863	182.950	182.950	183.45	-3.1	182.950	-3.1	10.8
Sweden	10.0775	-0.0084	132	224	10.0775	10.0775	10.0797	-0.2	10.0775	-0.2	10.8
Switzerland	1.8068	-0.0008	556	571	1.8187	1.8068	1.7997	4.7	1.7997	4.7	10.8
UK											
US	1.2150	-0.0003	145	155	1.2180	1.2144	1.2138	1.1	1.2117	1.1	1.2023
South America											
Argentina	1.5735	-0.0026	731	738	1.5732	1.5710					
Brazil	1.5081	-0.0026	073	088	1.5083	1.5055					
Canada	0.1067	-0.0019	058	076	0.1076	0.1010	2.1058	0.5	2.1068	0.2	2.1107
Chile	10.0775	-0.0084	132	224	10.0775	10.0775					
Colombia	1.5738	-0.0025	734	741	1.5735	1.5712	1.5727	0.8	1.5706	0.8	1.5658
Costa Rica											
Cuba											
Czech Republic											
Ecuador											
El Salvador											
Honduras											
Hungary											
India											
Indonesia											
Israel											
Japan											
Korea											
Malaysia											
Malta											
Mexico											
Moldova											
Morocco											
New Zealand											
Philippines											
Poland											
Romania											
Saudi Arabia											
Singapore											
Slovakia											
Slovenia											
South Africa											
South Korea											
Taiwan											
Thailand											
Turkey											
Ukraine											
Yugoslavia											

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Oct 17	Closing mid-point	Change on day	Oct 17	Closing mid-point	Change on day	Oct 17	Closing mid-point	Change on day	Oct 17	Closing mid-point	Change on day
Europe			Australia			Canada			Denmark		
Australia	0.6980	-0.0023	655	704	0.6980	0.6980	1.8	0.6980	1.8	0.6980	1.5
Belgium	26.238	-0.0425	400	400	26.238	26.238	2.116	1.7	26.238	1.7	26.238
Denmark	0.6980	-0.0023	655	704	0.6980	0.6980	1.8	0.6980	1.8	0.6980	1.5
France	0.6980	-0.0023	655	704	0.6980	0.6980	1.8	0.6980	1.8	0.6980	1.5
Germany	0.6980	-0.0023	655	704	0.6980	0.6980	1.8	0.6980	1.8	0.6980	1.5
Greece	0.6980	-0.0023	655	704	0.6980	0.6980	1.8	0.6980	1.8	0.6980	1.5
Italy	0.6980	-0.0023	655	704	0.6980	0.6980	1.8	0.6980	1.8	0.6980	1.5
Luxembourg	0.6980	-0.0023	655	704	0.6980	0.6980	1.8	0.6980	1.8	0.6980	1.5
Netherlands	0.6980	-0.0023	655	704	0.6980	0.6980	1.8	0.6980	1.8	0.6980	1.5
Norway	0.6980	-0.0023	655	704	0.6980	0.6980	1.8	0.6980	1.8	0.6980	1.5
Portugal	0.6980	-0.0023	655	704	0.6980	0.6980	1.8	0.6980	1.8	0.6980	1.5
Spain	0.6980	-0.0023	655	704	0.6980	0.6980	1.8	0.6980	1.8	0.6980	1.5
Sweden	0.6980	-0.0023	655	704	0.6980	0.6980	1.8	0.6980	1.8	0.6980	1.5
Switzerland	0.6980	-0.0023	655	704	0.6980	0.6980	1.8	0.6980	1.8	0.6980	1.5
UK											
US											
South America											
Argentina											
Brazil											
Canada											
Chile											
Colombia											
Costa Rica											
Cuba											
Czech Republic											
Ecuador											
El Salvador											
Honduras											
Hungary											
India											
Indonesia											
Israel											
Japan											
Korea											
Malaysia											
Malta											
Mexico											
Moldova											
Morocco											
New Zealand											
Philippines											
Poland											
Romania											
Saudi Arabia											
Singapore											
Slovakia											
Slovenia											
South Africa											
South Korea											
Taiwan											
Thailand											
Turkey											
Ukraine											
Yugoslavia											

CROSS RATES AND DERIVATIVES

Oct 17	BFF	DKF	FFD	FFD	R3	L	F1
Belgium	(BFF) 10.0	18.87	17.04	4.857	2.133	5.485	5.441
Denmark	(DKF) 53.00	10	8.031	2.574	1.131	2.907	2.884
France	(FFD) 58.88	11.07	10	2.851	1.252	3.218	3.174
Germany	(DM) 20.50	3.884	3.508			1.129	1.125
Greece	(FFD) 45.87	8.944	7.957	2.377	1.038	2.711	2.337
Ireland	(L) 1.2823	5.434	0.311	0.089	0.010	0.050	
Italy	(F) 18.36	4.857	8.137	0.893	0.382	1.008	1
Luxembourg	(FFD) 10.0	8.818	7.064	2.270	0.887	2.545	2.542
Netherlands	(FL) 18.53	3.689	3.381	0.850	0.147	1.072	1.054
Norway	(P) 26.79	4.488	4.053	1.150	0.500	1.305	1.294
Portugal	(DKF) 42.18	7.956	7.167	2.849	0.900	2.913	2.828
Spain	(FFD) 10.0	4.787	4.293	1.234	0.542	1.394	1.383
Sweden	(C) 45.88	8.656	7.188	2.238	0.879	2.517	2.487
Switzerland	(CS) 21.78	4.109	3.711	1.015	0.465	1.186	1.185
UK	(M) 5.50	5.50	5.50	1.518	0.529	1.589	1.589
US	(Y) 23.08	4.635	4.632	1.412	0.820	1.594	1.581
Japan	(P) 37.77	7.128	6.435	1.835	0.800	2.072	2.055
Austria, Belgium, France, Denmark, Norway, Germany, and Sweden (K) on 10; Belgium, France, Y, etc. 20							
D-BANK FUTURES (MM) \$M 125,000 per DM							
	Open	Latest	Change	High	Low	Est. vol	Open Int.
Dec	0.7051	0.7068	+0.0007	0.7085	0.7046	13,338	48,892
Jan		0.7092		0.7082		107	2,658
Mar		0.7120				1	89
SWISS FRANK FUTURES (MM) SF 125,000 per SF							
Dec	0.8715	0.8740	+0.0005	0.8745	0.8715	8,925	31,488
Jan	0.8813	0.8815	+0.0006	0.8815	0.8813	32	1,764
Mar		0.8890				390	402

## CHEMICALS

	Notes
AGA S&P	
Akam Fi	
Altright & Wilcox S&P	
Allied Colloids	X
Amber Ind	w
Amberley	X
BASF DM	
BDC	X S
BTP	X S
Bayer DM	
Bristol	X S
British Vils	X S
Canning (W)	X S
Comarino	X
Warrants	

Grade \_\_\_\_\_  
Dossier \_\_\_\_\_

Grade \_\_\_\_\_  
Dossier \_\_\_\_\_

Cuthyros \_\_\_\_\_ 大竹  
 Greenstone \_\_\_\_\_ 大竹

Cuthyros \_\_\_\_\_ 大竹  
 Greenstone \_\_\_\_\_ 大竹

Ideal Hardware.....☒ **✓**  
Inchcups.....☐

Ideal Hardware.....☒ **✓**  
Inchcups.....☐

Op Co Pl \_\_\_\_\_  
Trans Zamboni \_\_\_\_\_  
Indus Int \_\_\_\_\_

Op Co Pl \_\_\_\_\_  
Trans Zamboni \_\_\_\_\_  
Indus Int \_\_\_\_\_

**EXTRACTIVE INDUSTRIES - Cont.**

Locaine R	208	+37	288	174
MM AS	85	+1	113	17
15-16-17-18-19-20	85	+1	113	17

Locaine R	208	+37	288	174
MM AS	85	+1	113	17
15-16-17-18-19-20	85	+1	113	17

## FOOD PRODUCERS

## FOOD PRODUCERS

Tolson & Lytle	444	-2	479	412
74p Cr Rd Pt	197 1/2		213	182

Tolson & Lytle	444	-2	479	412
74p Cr Rd Pt	197 1/2		213	182

IL 10/25	315	-8	363	136
Sensor-BMA	71nd	—	70	41
Substation	251	—	241	201

IL 10/25	315	-8	363	136
Sensor-BMA	71nd	—	70	41
Substation	251	—	241	201

## + of 199

+ of 199

INVESTCO Asia Inst  
Wharfedale  
Investment Co Ltd

INVESTCO Asia Inst  
Wharfedale  
Investment Co Ltd

Moorgate Senior 4-4	124	—	128
Warrants	36	—	39
Moscow Co. Jan 3-4	164		169

Moorgate Senior 4-4	124	—	128
Warrants	36	—	39
Moscow Co. Jan 3-4	164		169

SHINSCOT.....	148	—	142
Shin.....	233	—	233

SHINSCOT.....	148	—	142
Shin.....	233	—	233

## +OR 1995

+OR 1995





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WORLD STOCK MARKETS

EUROPE									
Austria (Oct 17/Sec)									
Alpine	1,815	-10	2,200	1,815	1,815	1,815	1,815	1,815	1,815
Alpine	1,815	-10	2,200	1,815	1,815	1,815	1,815	1,815	1,815
Belgium (Oct 17/Fri)									
Alcatel	4,000	-75	4,075	4,000	4,000	4,000	4,000	4,000	4,000
Alcatel	4,000	-75	4,075	4,000	4,000	4,000	4,000	4,000	4,000
Denmark (Oct 17/Mon)									
Asa	130	-1	131	130	130	130	130	130	130
Asa	130	-1	131	130	130	130	130	130	130
France (Oct 17/Fri)									
Alcatel	1,815	-10	2,200	1,815	1,815	1,815	1,815	1,815	1,815
Alcatel	1,815	-10	2,200	1,815	1,815	1,815	1,815	1,815	1,815
Germany (Oct 17/Fri)									
Alcatel	1,815	-10	2,200	1,815	1,815	1,815	1,815	1,815	1,815
Alcatel	1,815	-10	2,200	1,815	1,815	1,815	1,815	1,815	1,815
Italy (Oct 17/Fri)									
Alcatel	1,815	-10	2,200	1,815	1,815	1,815	1,815	1,815	1,815
Alcatel	1,815	-10	2,200	1,815	1,815	1,815	1,815	1,815	1,815
Japan (Oct 17/Fri)									
Alcatel	1,815	-10	2,200	1,815	1,815	1,815	1,815	1,815	1,815
Alcatel	1,815	-10	2,200	1,815	1,815	1,815	1,815	1,815	1,815
Korea (Oct 17/Fri)									
Alcatel	1,815	-10	2,200	1,815	1,815	1,815	1,815	1,815	1,815
Alcatel	1,815	-10	2,200	1,815	1,815	1,815	1,815	1,815	1,815
Malaysia (Oct 17/Mon)									
Alcatel	1,815	-10	2,200	1,815	1,815	1,815	1,815	1,815	1,815
Alcatel	1,815	-10	2,200	1,815	1,815	1,815	1,815	1,815	1,815
New Zealand (Oct 17/Fri)									
Alcatel	1,815	-10	2,200	1,815	1,815	1,815	1,815	1,815	1,815
Alcatel	1,815	-10	2,200	1,815	1,815	1,815	1,815	1,815	1,815
Singapore (Oct 17/Fri)									
Alcatel	1,815	-10	2,200	1,815	1,815	1,815	1,815	1,815	1,815
Alcatel	1,815	-10	2,200	1,815	1,815	1,815	1,815	1,815	1,815
South Africa (Oct 17/Fri)									
Alcatel	1,815	-10	2,200	1,815	1,815	1,815	1,815	1,815	1,815
Alcatel	1,815	-10	2,200	1,815	1,815	1,815	1,815	1,815	1,815
Taiwan (Oct 17/Fri)									
Alcatel	1,815	-10	2,200	1,815	1,815	1,815	1,815	1,815	1,815
Alcatel	1,815	-10	2,200	1,815	1,815	1,815	1,815	1,815	1,815
Thailand (Oct 17/Fri)									
Alcatel	1,815	-10	2,200	1,815	1,815	1,815	1,815	1,815	1,815
Alcatel	1,815	-10	2,200	1,815	1,815	1,815	1,815	1,815	1,815
UK (Oct 17/Fri)									
Alcatel	1,815	-10	2,200	1,815	1,815	1,815	1,815	1,815	1,815
Alcatel	1,815	-10	2,200	1,815	1,815	1,815	1,815	1,815	1,815
US (Oct 17/Fri)									
Alcatel	1,815	-10	2,200	1,815	1,815	1,815	1,815	1,815	1,815
Alcatel	1,815	-10	2,200	1,815	1,815	1,815	1,815	1,815	1,815

Rockwell builder of the space shuttle, also makes the majority of the fax and data modems in the world

Rockwell

INDICES									
	Oct 17	Oct 16	Oct 13	High	Low	1995	Low	High	Low
Argentina Central (9/17/77)	94		13027.11	15831.20	21	9831.09	99		
Alcatel	210.85	211.00	204.9	209.7	190.00	1923.30	82		
Alcatel	56.41	55.15	55.83	10259.00	78	795.30	82		
Alcatel	333.75	341.26	345.30	356.42	21	333.75	21		
Alcatel	901.71	928.22	945.41	1009.91	21	901.71	1770		
Alcatel	1422.73	1494.03	1425.10	1491.30	28	1271.63	43		
Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
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Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
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Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
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Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
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Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
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Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
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Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
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Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
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Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
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Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
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Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
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Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
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Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	
Alcatel	44	45.98	46.90	49.91	20.00	199	639.10	89	

## NEW YORK STOCK EXCHANGE COMPOSITE PRICES

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AMERICA

# Technology sector up after mixed news

Wall Street

US shares were mostly flat in early trading yesterday, but technology issues gained ground on strong earnings reports from Intel and Sun Microsystems, writes Lisa Bransford in New York.

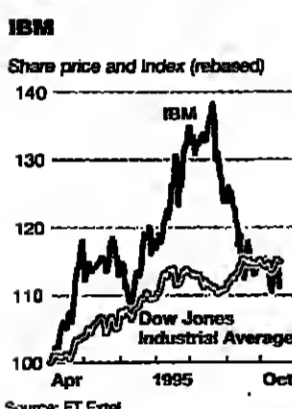
Sun Microsystems, the network computers group, was up nearly 12 per cent or \$7 at \$85% after reporting late on Monday that first-quarter earnings had advanced strongly and in excess of analysts' estimates.

Also beating analysts' estimates was Intel, the second largest company on the Nasdaq composite. In early trading Intel had appreciated \$% to \$% after reporting a four-fold increase in revenues for the third quarter.

Those gains added to the bullish sentiment among technology shares, helping the Nasdaq composite, which is weighted towards that sector, rise 4.34 to 1,022.37. The Pacific Stock Exchange technology index was 1 per cent higher.

But not all the news was positive in this sector. Both IBM and Compaq Computer posted weaker than expected third-quarter results. IBM reported earnings per share of \$2.30, 12 cents below the mean estimate, and the shares slipped \$1 to \$92%.

Compaq missed estimates by 1 cent with earnings of 89 cents a share, but its stock climbed \$1% to \$49% after the company said it expected improvement



in gross margins to boost earnings in the fourth quarter.

The weakness in IBM was one factor sending the Dow down 6.86 to 4,777.53 by 1 p.m. Meanwhile, the Standard & Poor's 500 was unchanged at 583.03, while the American Stock Exchange composite was 1.01 lower at 535.73. Volume on the New York SE came to 200m shares.

Also hurting the Dow were declines in US Treasury prices. In early afternoon trading the benchmark 30-year Treasury was off more than half a point as investors took profits following last week's rally.

Several companies in the Dow were hit by a round of profit-taking after reporting stronger than expected earnings. Caterpillar, which was more than \$5 since last Wednesday, slipped \$1 yesterday to \$5% after reporting profits of \$1.07 per share, exceeding estimates by 2 cents.

Philip Morris, which had climbed nearly \$10 since the start of September, gave back \$% at \$84% after reporting earnings of \$1.71 a share, 3 cents a share ahead of estimates.

The Dow did get some support from Eastman Kodak, which climbed \$2% to \$59% after reporting earnings per share of 99 cents.

Canada

Toronto, trading sideways on Quebec referendum uncertainty, was pulled lower by weakness in golds. The sector index was 115.34 lower at 9,887.14 by 1 p.m. local time. Comex gold was off 40 cents at \$385.70 an ounce, probing the lower end of its range.

The TSE 300 composite index eased 6.55 to 4,496.80. There was good and bad news from Falconbridge, which reported exploration results at its Raglan nickel-copper project in northern Quebec which analysts described as exceptional, but which also said that its integrated Sudbury division nickel mines and smelter operated below capacity in the third quarter. The shares eased \$% to \$38%.

EUROPE

# Bourses depressed by dollar and bond markets

The dollar weakened in New York, taking European bonds and equities with it. While FRANKFURT had tried hard to re-establish itself above the 2,200 level, it lost its buoyancy in the afternoon. The Dax index, after an intra-day peak of 2,207.48, closed 8.33 lower at 2,195.52.

Turnover increased from DM4.8bn to DM5.5bn. Blue chips mainly drifted lower towards the end, but the utilities sector, regarded as a defensive play, continued its run of relative strength, with Viag up DM4.90 to DM970.

Among second liners, Deutsche Babcock, recently dropped from the Dax 30, climbed DM3.40 to DM147.10 after it announced an east German order for two coal-fired power plants worth DM1.2bn. Linotype, which plunged more than 15 per cent on Monday, rebounded sharply in early floor trade, only to drop again on consideration of a loss forecast for the second half of this year, and job cuts for 1996. The shares fell DM6 more to DM163 after a high of DM191 on the day.

PARIS caught currency worries once more and the CAC-40 index drifted down 10.75 to 1,779.74.

James Capel and Morgan Stanley both came out with gloomy forecasts for the French equity market yesterday, downgrading their investment recommendations to underweight. Mr Richard

FT-SE Actuaries Share Indices

	Oct 17	Oct 16	Oct 13	Oct 12	Oct 11	Oct 10
FT-SE 100	1411.57	1411.08	1409.95	1410.25	1408.97	1407.54
FT-SE 250	1330.10	1329.59	1328.84	1329.01	1327.32	1325.02

Davidson at Morgan Stanley said that he did not think that interest rate cuts would be "large or fast enough to help the market in the three to six-month time span". At Capel the French equity team commented that with no change discernible in domestic monetary policy and a likelihood that economic growth would underwhelm the other European countries, further downgrades in corporate earnings were to be expected.

Thomson-CSF moved against the trend with a rise of 40 centimes to FF99.90 as the government announced that it could be privatised by the spring of next year.

Générale des Baux, off FF17.70 at FF424.30, said that its joint venture with Thames Water, of the UK, was the favoured bidder for a water supply and purification service in south Australia.

MILAN settled lower still as political nervousness continued to take its toll ahead of today's no confidence debate on the justice minister. The Mibtel index fell 100 to 9,238 in

turnover estimated at L825bn. Gemina fell L85 to L536 as investors waited for news from an RCS Editor board meeting, which was expected after the close. RCS was expected to announce a capital increase, underwritten by Gemina, to cover losses.

Among companies involved in the planned merger of Gemina with Ferruzzi Finanziaria, Ferruzzi dropped L48 to L859, Montedison L21 to L1,000 and Snia L62 to L1,440.

Mediobanca lost L137 to L1,080 as dealers noted two large block trades in the company late in the session, which totalled 1.3 per cent of the bank's capital.

AMSTERDAM remained under pressure, adding to the decline posted at the start of the week, and the AEX index closed 2.58 lower at 456.57.

Philips felt the chill wind of IBM and settled back 70 cents to FL70.50. But there was some upside with Boskalis, the world's largest dredging group, adding 40 cents or 2 per cent at FL20.00 on its takeover of a specialised construction com-

pany. Elsewhere in the construction sector, NBM Amsterdam gathered 50 cents or 2.4 per cent to FL21.40 after it said that it was negotiating to acquire a trading company.

ZURICH made a determined run at a fifth consecutive high for the year but, having peaked at an intra-day 3,134.5, the SMI index came back late in the day and closed 4.9 lower at 3,112.3. Sandor rose SF7 to SF9381 ahead of nine-month sales figures due next week.

STOCKHOLM was upset by news that third-quarter sales of Astra's Losce gastric ulcer drug had fallen below market expectations. Astra A dropped SKr7 to SKr249. Pharmacia A followed with a fall of SKr3 to SKr219, and while majors like Ericsson and Volvo were relatively flat, the Affärsvärlden General index shed 9.1 to 1,792.0. HELSINKI eased ahead of Nokia's eight-month results due tomorrow, but it was a little less sensitive than it had been to Nokia A, which fell FM6 or more than 2 per cent to FM284. The Hex index ended just 9.58 lower at 2,062.99.

VIENNA reacted further to the collapse of the coalition government, and to Monday's explosion of two letter bombs. The ATX index dropped another 26.51 or 2.9 per cent to 901.7 after an intra-day low of 895.79. Creditanstalt, whose privatisation was halted as a result of the political situation, fell Sch51 to Sch92.

ISTANBUL moved modestly

EUROPEAN EQUITIES TURNOVER

Source	Monthly total in local currencies (bn)				US \$bn
	June 1995	July 1995	Aug 1995	Sep 1995	
Belgium	78.92	70.15	70.60	82.22	3.05
Denmark	28.00	22.92	27.30	25.20	4.42
Finland	15.68	14.23	14.80	17.30	0.93
France	204.85	160.37	141.91	184.21	36.34
Germany	158.33	138.80	138.98	164.81	112.16
Italy	38.942	45.841	45.191	48.024	28.65
Netherlands	31.50	37.80	32.88	31.85	18.16
Norway	30.72	30.60	33.41	28.95	4.48
Spain	933.74	1,111.19	998.42	895.96	7.02
Sweden	82.40	82.20	123.84	137.20	19.19
Switzerland	31.02	27.08	29.56	36.68	30.90
UK	55.31	51.10	52.95	60.51	92.77

Volumes represent purchases and sales. Italian data adjusted to include off-market trading. Some figures may be revised. Source: NatWest Securities.

September proved that sheer volatility can be very good for equity business; yet Belgium, the best performer in the top 12 European markets, managed to record a 30.6 per cent increase in turnover as its share price index rose by just 0.1 per cent. Part of the Belgian story, says Mr Geoffrey Taylor of Dillon Read, is that September was the height of the corporate reporting season; and, in addition, the month saw a lot of derivatives-driven trading. Meanwhile, France ran its neighbour close with a 28.8 per cent turnover gain as its share prices dropped a steep 4.4 per cent. Mr James Cornish, European strategist at NatWest Securities, which produces the figures, notes that French turnover on London's screen-based dealing service, Seag International, fell by only 18.9 per cent, suggesting that the main selling pressure in French stocks was a domestic response to the plummeting credibility of the government. In contrast, a 24.1 per cent expansion in Swiss turnover was founded on a share price rise of 3 per cent after a 2.3 per cent gain in August; and Swiss stocks turned over an extra 25.5 per cent on Seag International - suggesting, says Mr Cornish, a return of international buying.

higher following Monday's enthusiasm on news that a new coalition government was to be formed. The composite index added 261.60 at 47,557.65 as turnover reached a record high of TL23,600bn.

Written and edited by William Cochrane and John Pat

ASIA PACIFIC

# Nikkei dips below 18,000 level on profit-taking

Tokyo

Speculative trading dominated activity, but the Nikkei average closed lower on profit-taking by domestic institutions and futures linked selling, writes Emiko Terazono in Tokyo.

The 225-share index dipped 99.54 to 17,916.60 - returning below the 18,000 level which it had regained on Monday - after trading between 17,840.97 and 18,071.34, mainly on technical activity.

Volume was 311m shares, against 274m. The Toxix index of all first section stocks edged up 0.33 to 1,331.51 and the Nikkei 200 lost 0.2 to 265.11. Advances marginally outnumbered declines by 497 to 487, with 183 issues unchanged. In London the ISE/Nikkei 50 index eased 0.01 to 1,217.02.

Shares gained ground in early trading on buying by corporate investors, but a decline in the futures market in Chicago on Monday prompted arbitrage-linked selling. Traders expected tight ranged trading in the near term, as profit-taking by domestic institutions seemed to have emerged around the 18,000 level.

Although many investors had braced themselves for further damaging news for Japanese banks from the US banking committee's hearing on the Japanese financial system on Monday, it had failed to produce any surprises. Banking stocks were mixed, although trust banks, which have exposure to the ailing fusen, or housing loan companies, were weaker.

Dai-ichi Kangyo Bank fell Y20 to Y1,800 and Mitsubishi Trust and Banking lost Y10 to Y1,490. However, Bank of Tokyo rose Y20 to Y1,540 and Mitsubishi Bank added Y10 to Y2,050.

Kyokuyo, a fishing company, was the most active issue of the day on speculative trading by individual investors and

brokerage dealers. It retreated Y29 to Y587 on profit-taking.

Shipping stocks, which had rallied on the dollar's rise because the companies are remunerated in the US currency, fell on profit-taking. The sector shed 2.1 per cent. Mitsui OSK losing Y8 to Y267.

In Osaka, the OSE average fell 49.63 to 19,405.50 in volume of 19.9m shares. High-technology issues were lower, with Murata Mig, the machine tools company, off Y100 at Y3,590 on profit-taking.

Roundup

Late afternoon buy orders from overseas institutions helped HONG KONG surge off a 62-point intraday loss, and the Hang Seng index gained a further 23.65 to finish at 10,032.93. Turnover fell from HK\$6.26bn to HK\$4.44bn. Selected banks and property companies were the target of the late buying.

China's improving inflation picture also encouraged buying of mainland China stocks, and the H share index moved up 12.51 or 1.4 per cent to 906.01.

KUALA LUMPUR fell across the board, led by selling in automotive and property shares following the move by the central bank to tighten credit on car and house loans. The composite index shed 11.51 or 1.2 per cent to 945.66.

Brokers commented that while the credit squeeze was positive for the economy in the long term, stocks in these sectors would be pressured by lower earnings prospects.

The government's announcement that further credit tightening measures were likely in the budget due on October 27, and Bank Negara's intervention to push up interest rates in the money market, also weighed on sentiment.

SYDNEY ended slightly lower in line with Wall Street's overnight decline. The All Ordinaries index lost 1.5 to 2,108.5. Volume was 176.05m shares worth A\$427.55m.

CRA moved forward 40 cents to A\$20.10, recovering, said brokers, from an oversold position after last week's news of a merger with RTZ.

News Corp fell 14 cents to A\$6.91, while Australis shares remained suspended ahead of an announcement which, said the market, would include a proposal to merge Australis with Foster, in which News Corp holds a 50 per cent stake.

Dealers also speculated that News Corp might be planning a takeover of the music business of Thorn EMI, of the UK, a rumour which had been in the market for some time.

TAIPEI moved up as institutional investors sought out the electronics and financial sectors. The weighted index closed with a gain of 42.02 or 0.8 per cent at 5,681.00. Turnover was thin at T\$23.4bn.

The electronics sector rose by 1.5 per cent, with United Micro advancing T\$2 to T\$72.50. Financials ended 1 per cent up as a group.

JAKARTA reported late buying in Astra, which closed Rp200 higher at Rp1,175 on reports that the company planned to build a new manufacturing plant.

The JKSE composite index

ended 2.84 ahead at 488.85.

SINGAPORE's Straits Times Industrial index eased 12.42 to 2,099.33. Malaysian shares traded over the counter suffered from expectations that the budget to be announced on October 27 might contain credit curbs. The UOB OTC index fell 11.15 or 1.1 per cent to 1,023.30.

SEOUL's composite index finished 1.60 softer at 1,005.88. However, Keo Pyung went the day's limit up in afternoon trade, closing Won2,200 higher at Won21,800 on the announcement that its affiliates had won an auction for controlling

stakes in two units of Pohang Iron and Steel.

BANGKOK sold the finance sector and the SET index ended 7.13 lower at 1,309.51. Siam City Credit declined Bt5 to Bt134, although it dismissed as rumour a newspaper report that a major borrower had gone missing.

KARACHI recovered part of Monday's 3 per cent drop on short-covering in speculative stocks, but sentiment remained weak ahead of today's planned general strike by the MQM in Sindh province.

The KSE 100-share index gained 5.26 at 1,518.08.

# Mexico City off 1%

Mexico City was down 1 per cent by midsession in expectation of a rise in domestic interest rates. The IPC index was off 23.32 at 2,296.97 by noon.

Analysts said that they expected rates on T-bills, or cetes, to rise by between 2 and 3 percentage points during the weekly auction later in the session.

Iusacell, a telecommunications group, rose 3.3 per cent on news that it had won a concession from the government to operate a long-distance tele-

phone service from 1997. Telmex responded to this news with a fall of 0.8 per cent.

Early declines included one of 5 per cent from Nadro, the retailer, while the financial group GF Norte retreated 2.6 per cent.

SAO PAULO was firmer at midday on positive expectations over a congressional committee vote on the government's administrative reform proposals. The Bovespa index gained 325 at 45,831 in light turnover of R\$157.5m (\$164.4m).

# South Africa pulls both ways

Industrials continued to find strength and the sector index recorded its fourth consecutive record close. In contrast the gold shares index tumbled to a four-month low. One dealer said that industrials were being driven higher by technical trading in the derivatives market.

Gold shares fell throughout the session on a lower bullion price and expectations of further than expected quarterly

results, due to be released later this week.

The overall index rose 11.6 to 5,816.4, the industrials index climbed 54.9 to 7,426.4 and golds fell 36.2 to 1,382.9.

Individual features included De Beers and SAB, both up 50 cents to R102.75 and R116.50 respectively. Among golds, Freegold shed R1.50 to R38, Dries fell R1.25 to R44.25, Vaal Reefs tumbled R4.50 to R219 and Joel lost 15 cents at R3.45.

FT/S&P ACTUARIES WORLD INDICES

FTSP/AS Futures World Indices are compiled by The Financial Times Ltd., Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by The Financial Times and the London Stock Exchange in conjunction with the Institute of Actuaries and the Faculty of Actuaries, NewWest Securities Ltd. was a co-founder of the Indices.																					
MONDAY OCTOBER 16 1995										FRIDAY OCTOBER 13 1995										DOLLAR INDEX	
Region	US Dollar Index	Day's Change	Pound Sterling Index	Yen Index	DM Index	Local Currency % chg on day	Local Div. Yield	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency % chg on day	Local Div. Yield	Gross Div. Yield	US Dollar Index	52 week High	52 week Low	Year ago (approx)		
Australia (82)	184.55	0.3	173.58	117.01	136.29	182.28	0.7	4.00	184.01	173.90	117.10	136.71	181.18	0.7	4.00	183.18	181.01	167.95	186.18		
Austria (27)	172.05	-0.8	181.82	109.08	128.97	128.20	-1.5	1.32	173.53	180.83	110.43	128.93	128.86	-1.5	1.32	172.86	180.28	167.48	184.45		
Belgium (35)	182.41	0.5	180.86	121.99	142.00	138.57	-0.1	3.77	181.48	180.55	121.86	142.26	138.79	-0.1	3.77	180.76	201.12	164.78	186.42		
Brazil (28)	148.80	0.2	140.05	84.41	100.89	262.88	0.3	1.81	148.54	140.08	84.53	110.36	261.98	0.3	1.81	147.86	201.12	164.78	186.42		
Canada (100)	144.03	0.0	135.47	91.32	106.59	136.51	0.0	2.87	144.05	135.83	91.67	107.02	136.48	0.0	2.87	143.83	121.81	157.48	187.48		
Denmark (38)	204.28	0.5	207.37	180.22	209.79	212.78	-0.2	1.52	207.78	206.84	179.96	210.10	213.19	-0.2	1.52	206.99	236.91	203.49	234.49		
Finland (29)	251.92	-0.6	236.84	158.72	185.91	227.14	-0.8	1.41	250.37	238.81	159.24	188.25	226.08	-0.8	1.41	248.11	278.11	171.13	192.95		
France (100)	171.55	-0.9	161.35	106.79	126.60	133.38	-1.2	3.29	172.12	163.24	110.17	128.82	135.05	-1.2	3.29	171.17	157.79	171.88	187.88		
Germany (85)	150.05	0.4	150.54	101.48	118.11	118.11	-0.3	2.02	150.81	150.31	101.44	118.43	118.43	-0.3	2.02	149.74	126.30	145.26	165.26		
Hong Kong (55)	188.89	-1.2	185.77	245.69	267.00	385.99	1.2	3.77	184.41	182.47	244.63	285.81	381.55	1.2	3.77	181.00	277.40	387.78	487.78		
Ireland (16)	250.11	-0.2	235.25	158.88	184.58	218.78	-0.3	3.45	250.55	236.25	159.45	186.15	219.55	-0.3	3.45	248.55	250.55	195.34	211.74		
Italy (59)	71.87	-2.2	87.41	45.44	52.89	89.75	-2.4	1.77	73.30	88.12	46.85	54.48	87.83	-2.4	1.77	72.83	86.48	82.71	78.81		
Japan (83)	144.36	0.8	135.80	91.54	108.55	91.54	0.4	0.83	143.27	135.09	91.17	106.45	91.17	0.4	0.83	142.82	138.95	162.48	162.48		
Malaysia (108)	195.45	-0.8	195.73	285.74	344.24	455.77	-0.7	1.79	195.44	195.44	285.74	344.24	455.77	-0.7	1.79	195.44	285.74	344.24	455.77		
Mexico (18)	208.08	-0.2	208.75	632.79	736.56	736.56	0.2	1.89	208.03	208.03	632.79	736.56	736.56	0.2	1.89	208.03	632.79	736.56	736.56		
Netherlands (19)	258.79	0.1	241.53	182.81	188.51	188.25	-0.8	3.50	258.56	241.52	182.81	188.25	188.25	-0.8	3.50	258.56	241.52	188.25	188.25		
New Zealand (14)	253.05	1.4	253.25	50.75	58.05	94.35	1.5	4.43	253.25	50.75	58.05	94.35	1.5	4.43	253.25	50.75	58.05	94.35	94.35		
Norway (33)	238.87	0.1	222.79	150.19	174.81	200.75	0.7	2.11	234.28	220.91	149.08	174.08	199.43	0.7	2.11	234.28	220.91	149.08	174.08		
Singapore (44)	370.10	-1.0	348.10	234.85	273.13	242.75	-1.2	1.69	373.71	352.38	237.82	277.86	245.87	-1.2	1.69	373.71	245.87	245.87	245.87		
South Africa (45)	362.26	0.1	340.72	228.67	267.34	288.23	0.0	4.03	361.97	341.31	228.67	267.34	288.23	0.0	4.03	361.97	228.67	267.34	288.23		
Spain (38)	140.19	0.1	140.22	84.58	118.10	138.48	-0.5	4.08	140.19	140.19	84.58	118.10	138.48	-0.5	4.08	140.19	84.58	118.10	138.48		
Sweden (48)	311.40	-0.3	282.89	197.43	229.51	320.58	-0.3	1.86	312.29	294.45	198.73	232.02	321.58	-0.3	1.86	312.29	294.45	198.73	232.02		
Switzerland (41)	221.73	0.0	208.55	140.58	183.85	158.00	0.3	1.68	219.89	207.15	139.80	183.22	157.58	0.3	1.68	219.89	207.15	139.80	183.22		
Thailand (66)	168.00	-0.7	158.20	106.84	124.13	136.05	0.6	2.49	167.12	157.18	106.35	124.17	136.82	0.6	2.49	166.12	157.18	106.35	136.82		
United Kingdom (207)	229.29	-0.1	212.84	142.67	170.07	212.84	-0.3	4.01	226.25	213.50	144.09	168.23	213.50	-0.3	4.01	227.07	167.07	207.19	219.19		
USA (503)	239.08	-0.2	224.16	151.50	176.35	239.08	-0.2	2.47	239.48	225.51	152.40	177.39	239.48	-0.2	2.47	239.48	225.51	152.40	177.39		
Argentina (549)	218.23	-0.2	206.26	136.36	161.06	183.11	-0.2	2.48	216.88	200.20	136.19	162.47	183.47	-0.2	2.48	216.88	200.20	136.19	162.47		
Brazil (27)	194.82	-0.1	194.82	123.52	173.83	164.24	-0.9	3.07	194.95	183.82	124.08	174.84	165.09	-0.9	3.07	194.95	183.82	124.08	174.84		
Canada (139)	155.28	-0.7	155.28	94.65	114.77	162.48	-0.4	1.28	154.21	145.11	93.13	114.77	162.48	-0.4	1.28	154.21	145.11	93.13	114.77		
Europe (1022)	155.28	-0.7	155.28	94.65	114.77	162.48	-0.4	1.28	154.21	145.11	93.13	114.77	162.48	-0.4	1.28	154.21	145.11	93.13	114.77		
Latin America (1572)	171.68	0.3	161.88	106.88	126.88	126.82	0.0	2.13	171.09	161.31	106.86	127.11	126.54	0.3	2.13	170.33	154.78	126.06	126.06		
North America (653)	209.09	-0.1	218.25	147.78	172.08	228.91	-0.2	2.47	209.58	200.25	146.85	173.94	229.19	-0.2	2.47	209.58	200.25	146.85	173.94		
South America (173)	171.68	0.3	161.88	106.88	126.88	126.82	0.0	2.13	171.09	161.31	106.86	127.11	126.54	0.3	2.13	170.33	154.78	126.06	126.06		
World Ex. UK (533)	172.70	0.2	162.89	160.73	180.58	229.60	0.4	3.54	267.32	161.16	110.69	129.19	138.80	0.4	3.54	267.32	161.16	110.69	129.19		
World Ex. US (783)	172.70	0.2	162.89	160.73	180.58	229.60	0.4	3.54	267.32	161.16	110.69	129.19	138.80	0.4	3.54	267.32	161.16	110.69	129.19		
World Ex. UK (7059)	169.79	0.1	169.79	120.33	140.56	155.16	-0.2	2.09	169.55	167.73	120.42	140.63	155.57	-0.2	2.09	169.55	167.73	120.42	140.63		
World Ex. Japan (2788)	169.79	0.1	169.79	120.33	140.56	155.16	-0.2	2.09	169.55	167.73	120.42	140.63	155.57	-0.2	2.09	169.55	167.73	120.42	140.63		
World Ex. Japan (2296)	169.79	0.1	169.79	120.33	140.56	155.16	-0.2	2.09	169.55	167.73	120.42	140.63	155.57	-0.2	2.09	169.55	167.73	120.42	140.63		
World Ex. Japan (2296)	169.79	0.1	169.79	120.33	140.56	155.16	-0.2	2.09	169.55	167.73	120.42	140.63	155.57	-0.2	2.09	169.55	167.73	120.42	140.63		